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PART IV.

F.O. 406
31

FURTHER CORRESPONDENCE

RESPECTING THE

BAGDAD RAILWAY.

1907.

31

TABLE OF CONTENTS.

No.	Name.	No.	Date.	SUBJECT.	Page
1	Sir F. Bertie ..	547 Confidential	Dec. 30, 1906	Negotiations between Ottoman and Deutsche Banks. Refers to No. 78, Part III. Decision of Debt Council. M. Henry's account of	1
2	Mr. G. Barclay ..	834	31,	Macedonian guarantee. Table showing the surplus of ceded revenues is tied up for two years	2
3	Sir F. Bertie ..	31	Jan. 17, 1907	Negotiations with regard to Bagdad Railway. Transmits article from the "Temps" by M. Marcel Rouffie	3
4	Sir C. Spring-Rice ..	15 Secret	4,	Rumoured Russo-German Arrangement. Russia said to have withdrawn opposition to Bagdad Railway on condition she should have right of constructing Khanikin-Bagdad branch and fixing tariff	6
5	Mr. G. Barclay ..	34	15,	Attitude of the Ottoman Bank. Agreement between Germany and the Sultan probable. Surplus of ceded revenues will be free before March 1909. French Delegate's action	7
6	Sir A. Nicolson ..	33 Confidential	16,	Rumoured Russo-German negotiations. Refers to No. 4. M. Isvolsky states he has not been approached by the German Ambassador	8
7	Sir F. Bertie ..	44 Confidential	23,	Action of French Delegate on the Debt. Minister for Foreign Affairs will explain clearly to M. Constans policy French Government towards Bagdad Railway	8
8	Sir G. Mackenzie ..	..	25,	British interests on the Tigris. Effect of Bagdad Railway on. Advocates agreement with Russia, and widening basis of the Transport Company	8
9	Mr. Cartwright ..	7 Confidential	25,	Financial position of Railway. Herr Tischler has stated that negotiations for participation of French and English capital are being pursued, but Germany would never yield up the control of the enterprise. South Germans take little interest in it	10
10	India Office ..	..	28,	Khor Zobei and Khor Abdullah. Transmits correspondence regarding geographical position and capabilities of	11
11	Major Maunsell ..	..	Feb. 4,	Notes on towns along Bagdad Railway. Transmits	14
12	Memorandum by Mr. Brant ..	..	4,	British rights of navigation on the Euphrates and Tigris. Memorandum on	25
13	To Sir F. Lascelles ..	36	4,	Financial position of Railway. Transmits No. 9 and requests him to obtain views of His Majesty's Consul-General at Frankfurt on	28
14	Sir N. O'Connor ..	81 Confidential	6,	Mesopotamian oil-fields. Refers to No. 3, Part III. Informs of negotiations of British firm to secure Concession for	28
15	Mr. Block ..	..	7,	Kilometric guarantees paid for various sections of Anatolian Railway, 1905 and 1906. Gives table of, with comments on	29

TABLE OF CONTENTS.

No.	Name.	No.	Date.	SUBJECT.	Page
16	Sir N. O'Connor ..	22 Tel.	Feb. 11, 1907	Mesopotamian oil-fields. Refers to No. 14. Is informed by Messrs. Whittall that they are on the point of negotiating for three months' option for Concession with the Civil List. Of great importance that strong British Syndicate should obtain it.	29
17	Mr. Cartwright ..	15	14,	Press rumours respecting progress of Bagdad Railway. Comments upon	30
18	Sir N. O'Connor ..	113	19,	Effect of kilometric guarantees upon financial position of Turkish Government. Transmits Memorandum by Mr. Block upon	30
19	Mr. Block ..	..	22,	Is not opposed to extension of railway nor participation of England in. Opportunity of participating should not be let slip. Germany's terms will be harder after the Taurus has been crossed. But points out danger of indefinitely mortgaging revenues of the country. Suggested remedies	40
20	Lieutenant - Colonel Picot ..	..	23,	Is informed that M. Huguenin said that a meeting is about to take place between German, French, and British financiers to settle some question of financing the Railway, presumably the second section	43
21	To Sir F. Bertie ..	120	Mar. 4,	Conversation with French Ambassador. Attitude of His Majesty's Government towards Railway. Negotiations between Messrs. Amboyneau and Zander	43
22	To Sir A. Nicolson ..	101	7,	Russian attitude towards Railway. Conversation with Russian Ambassador	44
23	To Sir F. Lascelles ..	77	8,	Political aspects of Railway. Conversation with German Ambassador respecting	46
24	Sir F. Lascelles ..	103 Confidential	16,	Bagdad Railway Scheme. Refers to No. 13. Transmits despatch from His Majesty's Consul-General at Frankfurt, giving his views on, so far as it is affected by the financial situation in Germany	47
25	Sir N. O'Connor ..	228 Confidential	Apr. 17,	Conversations of Mr. Loraine with Valis of Beyrout and Aleppo respecting Railway. Transmits account of	50
26	To Sir F. Bertie ..	256	25,	Conditions under which His Majesty's Government would participate. Conversation with M. Cambon	51
27	Sir F. Bertie ..	231 Confidential	May 2,	Conditions on which His Majesty's Government would negotiate. Inaccurate information of Ottoman Bank as to	51
28	To Sir N. O'Connor ..	159	4,	Imperial Ottoman Bank has lent 250,000l. to Turkish Government on security of surplus revenues, which will consequently not be available for hypothecation of further kilometric guarantees till 1910	51
29	Sir N. O'Connor ..	260	1,	Prospects of early continuation of railway. Are less hopeful	52
30	Sir F. Lascelles ..	204	10,	Negotiations of Porte with Ottoman Bank. Announcement in "Frankfurter Zeitung" of arrangement concluded by the Porte with Ottoman Bank for a loan	52
31	..	214	15,	Alleged Anglo-French opposition to continuation of. Transmits article from "Berliner Neueste Nachrichten"	53

No.	Name.	No.	Date.	SUBJECT.	Page
32	Sir A. Nicolson ..	295	June 2, 1908	Reported German Concession to make a railway from Tehran to Bagdad. M. Isvolsky has no information respecting any such project	54
33	Sir F. Lascelles ..	266 Secret	10,	German Concession. Transmits Memorandum by Lord Cranley of conversation with Dr. Schwabach relative to Concession said to have been obtained by Germans to construct railway between Bagdad and Tehran	54
34	Sir A. Nicolson ..	329	18,	Views of His Majesty's Government respecting the railway. Has communicated Memorandum setting forth views of His Majesty's Government to M. Isvolsky ..	55
35	Sir N. O'Connor ..	381 Confidential	24,	Financial position of the railway. German Minister is believed to be endeavouring to obtain from Sultan formal guarantee of certain revenues for next two or three sections of the railway	55
36	Count de Salis ..	320 Confidential	July 12,	Anatolian Railway. Transmits Annual Report for year 1906. The result not very satisfactory as compared with the preceding year	56
37	To Sir N. O'Connor ..	277 Confidential	16,	Financial position of the railway. Refers to No. 35. Recommends a consultation with Sir A. Block as to practicability of opposing collection of further revenue by Council of Ottoman Debt on behalf of railway	58
38	Count de Salis ..	325	16,	Bagdad Railway Company. Transmits Annual Report of, for year 1906. There appears to have been a falling off in receipts	59
39	Sir N. O'Connor ..	441	23,	Collection of further revenue by the Council of the Ottoman Debt on behalf of the Bagdad Railways. Refers to Nos. 35 and 37. Discussions with Sir A. Block as to prospects of opposition to	60
40	To Sir F. Bertie ..	432	31,	Attitude of His Majesty's Government towards railway. Conversation with M. Cambon. French objections to British proposals	60
41	Sir N. O'Connor ..	493	Aug. 6,	Proposed route of the Bagdad Railway. Transmits despatch from His Majesty's Acting Consul at Aleppo describing ..	61
42	To Sir F. Bertie ..	472 Confidential	22,	Sir Charles Hardinge's interview with Prince Bulow. Has told M. Geoffray that he has received a written account of the interview	63
43	Sir N. O'Connor ..	585	Sept. 17,	Concession for irrigation south of Konia. Irade has been issued, granting it to Anatolian Railway Company—district affected ..	64
44	Sir C. Spring-Rice ..	187	Aug. 28,	Railway construction in Persia. Refers to No. 33. Germans have not obtained Concession to construct railway from Bagdad to Tehran. No railway can be constructed till 1910 without permission of Russia ..	64
45	Sir N. O'Connor ..	722	Nov. 27,	Contract for irrigation of Plain of Konia. Refers to No. 43. Contract signed. Particulars as to cost of work and method of paying instalments	65

CONFIDENTIAL.

Further Correspondence respecting the Bagdad Railway.

PART IV.

[12]

No. 1.

Sir F. Bertie to Sir Edward Grey.—(Received January 1, 1907.)

(No. 547. Confidential.)

Sir,

Paris, December 30, 1906.

IN the waiting room at the Ministry [for Foreign Affairs I met yesterday M. Henry, who, as "Directeur des Consuls et des Affaires Commerciales," was there in expectation of the signature of the *procès-verbal* recording the deposit of the Ratifications of the Sanitary Convention of 1903. He took me aside and told me that he had interesting information to impart to me concerning the Bagdad Railway question. When, therefore, the meeting of the Representatives of the Powers parties to that Convention broke up I accompanied M. Henry to his room.

As what he told me was chiefly what I had learnt, but in greater detail, from M. Louis, the Political Director, which I had the honour to report to you in my despatch No. 527, Confidential, of the 20th instant, I need not attempt to repeat all that M. Henry said, but I may mention, for your information, certain statements which he made in the course of our conversation. I think that he was not aware of my interview with M. Louis on the 19th instant, and that consequently he was ignorant of the fact that I had received from M. Louis the information which he was imparting to me.

Like M. Louis, he informed me that M. Pichon had administered a severe reproof to M. Berger for having dissociated himself from his British colleague on the Council of the Debt in the matter of the provision of the £ T. 250,000 for Macedonia; but the way that he put it was that M. Berger had been blamed not only for not acting with Mr. Block, but for not communicating to the French Ambassador at Constantinople his intention not to vote with the British Delegate on the final issue to be settled in the Debt Council, and his failure to delay matters so that the opportunity might be given to the French Ambassador to refer M. Berger's intentions to the French Government for consideration. M. Henry was ignorant of or ignored the fact that M. Constans had reported to the French Government that M. Berger had refused to accept his recommendation to concert with Mr. Block the course to be followed by both of them.

I did not mention that fact to M. Henry, but I suggested to him that, much as M. Berger had been blameworthy, the person chiefly responsible for the regrettable situation was the French Ambassador at Constantinople, whose sympathies in the question of the Bagdad Railway were, as I well knew, not those of the French Government. He did not appear to have insisted with sufficient energy in the advice which he had been instructed to give to M. Berger. M. Henry said that the whole incident had been most regrettable, and that M. Constans had since then, and owing to misapprehension on his part, been made fully aware of the views and intentions of the French, which were to act entirely with His Majesty's Government and the Russian Government in the question of the Railway, to wait for some step by Germany soliciting the co-operation of France, and then to negotiate only with the knowledge and concurrence of England and Russia, and on the basis of the internationalization of the Railway between the four countries, with equal participation and rights in the enterprise to each.

As to the alleged negotiations between the Deutsche Bank and French financiers, M. Henry told me, in addition to the information given to me by M. Louis, that M. Gwinner, the head of the Deutsche Bank, who frequently comes to Paris on

business, was discussing about a year ago some question with a prominent French financier, when the latter asked what was being done in the matter of the Bagdad Railway. M. Gwinner, who was somewhat taken aback by the question, replied that nothing was being done by his bank, but that it would gladly accept the co-operation of French finance. To the further question as to the form in which such co-operation would be accepted, M. Gwinner had replied, "the investment of French capital at 4 per cent. on what would be excellent security." The French financier, M. Henry said, had retorted, "Vous plaisantez donc, M. Gwinner."

According to M. Henry there had been no sort of negotiation or pourparlers so far as the French Government or he knew, and he felt sure that none would take place without the knowledge and concurrence of the French Government, who would not give their concurrence without previous communication with His Majesty's Government.

M. Henry went on to say that all the information which he had made it evident to him that the German parties interested in the Railway could not raise the funds requisite for its continuation without coming to the Paris market.

France was now the country to which gold kept flowing in, and were it not for the large investments made by the French abroad there would be such a plethora of gold in this country that there would be a general financial crisis all over the world. It had been calculated that every year there came into France 60,000,000*l.* in the shape of interest on investments abroad, and that 60,000,000*l.* were left in France by foreign tourists visiting Paris and other parts of the country, and chiefly the Riviera. It was necessary, in order to obviate a crisis, to send out again a great part of the gold thus accumulated. I suggested that the Bank of France might easily relieve itself of part of its surplus of gold by making its coin payments in gold instead of in gold and silver according to its choice. M. Henry replied that the large amount of gold kept by the Bank had its advantages, one of which was that whereas the bank rate at Berlin was now at 7 per cent. and at London 6 per cent. it was at Paris only 3 per cent., and this lower rate enabled profitable business to be done.

I have, &c.
(Signed) FRANCIS BERTIE.

[596]

No. 2.

Mr. G. Barclay to Sir Edward Grey.—(Received January 7, 1907.)

(No. 834.)

Sir,

Constantinople, December 31, 1906.

IN my despatch No. 833 of to-day I mention that an advance of £ T. 250,000 has been obtained by the Turkish Government for Macedonia from the Ottoman Bank. This advance is to be repaid from the surplus of the ceded revenues of the Ottoman Debt. As will be seen from the subjoined Table, the surplus of the ceded revenues is thus tied up for at least two years:—

	£ T.
Balance unpaid on March 1 (14), 1906	18,500
Advances of Imperial Ottoman Bank in 1906-1907	422,000
Permanent assignments in 1906-1907	139,000
New advance of Imperial Ottoman Bank, December 22, 1906	250,000
	829,500
Deduct—Share of Government in estimated surplus of 1906-1907	400,000
Balance unpaid on March 1 (14), 1907	429,500
Permanent assignments in 1907-1908	139,000
	568,500
Deduct—Share of Government in estimated surplus of 1907-1908	400,000
	168,500
Permanent consignments, 1908-1909	139,000
	307,500
Share of Government in estimated surplus of 1908-1909	400,000
Credit balance on March 1 (14), 1909	92,500

In the above "situation" interest is not taken into account, nor the possible increase of surplus revenue.

I have, &c.
(Signed) G. BARCLAY.

[1955]

No. 3.

Sir F. Bertie to Sir Edward Grey.—(Received January 18.)

(No. 31.)

Sir,

Paris, January 17, 1907.

I HAVE the honour to transmit to you herewith, extracted from "Le Temps" of this evening, an article by M. Marcel Rouffie, describing the negotiations with regard to the Bagdad Railway up to the present date.

I have, &c.
(Signed) FRANCIS BERTIE.

Inclosure in No. 3.

Extract from the "Temps" of January 18, 1907.

LE CHEMIN DE FER DE BAGDAD.

LA question du Chemin de Fer de Bagdad est en quelque sort le serpent de mer de la chronique diplomatique. Depuis que les Turcs ont concédé à l'Allemagne la construction d'une voie ferrée de Konia au Golfe Persique, il se trouve chaque mois des publicistes pour découvrir que des négociations plus ou moins "secrètes" sont en cours pour arracher la concession aux Allemands, ou pour leur permettre d'en tirer profit. Il y a des gens qui voient le Chemin de Fer de Bagdad partout. Ils l'ont aperçu au moment où Guillaume II jugea convenable de débarquer à Tanger; ils l'ont aperçu quand le Docteur Rosen est venu négocier à Paris l'Accord du 28 Septembre; ils l'ont aperçu quotidiennement au détour des rues d'Algésiras, quand la Conférence siégeait; depuis qu'elle a terminé ses travaux, ils l'aperçoivent de nouveau plus ou moins distinctement dans tout ce qui se manigance à Constantinople. Et Dieu seul sait tout ce qui se manigance à Constantinople! En vérité, ces publicistes sont victimes de mirages ou d'autosuggestion. Le Bagdad ne fait pas de si fréquentes apparitions dans les conseils de la diplomatie Européenne. Mais il suffit qu'on croit le contraire pour qu'on puisse lire de tous côtés des nouvelles erronées ou tendancieuses à son sujet. Il est donc nécessaire de mettre cette affaire au point. Elle est d'ailleurs assez simple.

Rappelons d'abord les éléments de la question. Depuis 1899 la Société Ottomane des Chemins de Fer d'Anatolie a obtenu en fait du Gouvernement Turc l'autorisation de lancer à travers l'Asie-Mineure et la Mésopotamie une voie ferrée reliant Konia au Golfe Persique. Or, la Société Ottomane des Chemins de Fer d'Anatolie a été fondée par la Deutsche Bank de Berlin et une banque Wurtembergeoise; elle dispose de capitaux réunis en Allemagne: elle est dirigée par des Allemands; c'est une Société Allemande en relations étroites avec le Gouvernement Allemand. D'autre part, elle exploite déjà les lignes Haïdar-Pacha-Ismid, Ismid-Angora, Eskichehr-Konia. Elle dispose donc en réalité de la voie ferrée tout entière qui doit réunir un jour Constantinople aux mers d'Asie, et l'on peut dire que le Bagdad est une entreprise Allemande.

Il n'est pourtant pas une entreprise purement Allemande. Le 6 Mai, 1899, les représentants de la Deutsche Bank, ceux de la Société des Chemins de Fer d'Anatolie, ceux de la Banque Impériale Ottomane et ceux du Chemin de Fer de Kassaba (Société Française) se réunirent à Berlin. Français et Allemands décidèrent de marcher d'accord dans le développement futur des voies ferrées vers Bagdad et Bassorah. Ils convinrent (1) que les deux pays auraient une part égale et dans l'apport des capitaux et dans l'influence; (2) que la Société du Chemin de Fer de Bagdad était une Société spéciale et non l'extension de la Compagnie d'Anatolie. En échange de ces garanties, la France s'engageait à ne pas faire d'opposition aux négociations de la Compagnie d'Anatolie et de la Porte. En deux mots, nous adoptions de plein gré une politique passive, et nous nous engageions moyennant deux garanties, dont l'une au moins était purement formelle, à ne pas contrarier une politique Allemande active. C'est avec notre assentiment que le Bagdad est devenu une entreprise Allemande. On aperçoit aisément les raisons politiques qui nous firent adopter cette attitude. Peut-être n'auraient-elles pas dû prévaloir contre les intérêts bien entendus et clairement envisagés de notre pays et de la Russie.

En 1903 l'entente de 1899 fut précisée dans deux Conventions successives. La première stipulait que le capital serait réparti de la façon suivante : Allemands, 25 pour cent ; Français, 25 pour cent ; Anglais, 25 pour cent ; Compagnie d'Anatolie, 10 pour cent ; divers, 15 pour cent. Les groupes Allemands, Français, et Anglais devaient être représentés par huit Administrateurs chacun, la Compagnie d'Anatolie par trois, ainsi que les apports divers. Cette Convention avait paru admissible par les différentes parties intéressées, mais lorsque, le 13 Avril, 1903, les Allemands constituèrent la Société de Bagdad, ils le firent en lui donnant une apparence exclusivement Allemande. Cela suscita une vive opposition en Angleterre, et le groupe Anglais se retirant, cette Convention fut annulée.

On en conclut une nouvelle dans laquelle 40 pour cent du capital étaient fournis par les Français, 40 pour cent par les Allemands, 20 pour cent par divers groupes. Le Conseil d'Administration comprenait onze Administrateurs Allemands, onze Français, deux pour les groupes divers. Le Président et un Vice-Président devaient être Allemands, deux Vice-Présidents Français, le Secrétaire-Général Français. En outre, trois Administrateurs Allemands et trois Français formaient à Constantinople un Comité de Direction, avec présidence alternativement Française et Allemande. Ce Comité devait nommer un Administrateur-Délégué Allemand. Quelle place cette Convention réservait-elle à la France ? En ce qui concerne les capitaux, nous fournissions une part égale à celle de l'Allemagne ; si les 20 pour cent étaient pris soit par l'Italie et l'Autriche, soit par la Russie, cette parité n'existait plus en fait. Pour l'influence, s'il n'y avait pas égalité parfaite dans la répartition des postes administratifs, cela résultait de la déclaration de neutralité que nous avions faite en 1899, et cela était compensé : (1) par le partage par moitiés des commandes industrielles et de la construction ; (2) par le fait que les opérations financières devaient être contrôlées et exécutées de compte à demi et conjointement par les deux groupes.

On sait que la Russie faisait au projet Allemand une opposition des plus vives. M. Witte voyait, non sans raison, d'ailleurs, dans la construction du Bagdad un danger militaire (concentration plus rapide des troupes Ottomanes) et un danger économique (concurrence au Transsibérien et au "railway" du Turkestan prolongé). Les journaux Russes s'élevaient avec indignation contre la coopération de la France dans cette entreprise, et le "Messenger," journal du Gouvernement, expliquait dans des termes pleins de sous-entendus les raisons pour lesquelles la Russie n'y participerait pas :—

"... La multiplicité des participants pourra amener des conflits entre nations. Le Gouvernement Russe, d'ailleurs, s'il y prenait part, serait en situation délicate vis-à-vis de la Turquie, dont les embarras financiers ne permettent guère un paiement régulier des garanties kilométriques. Comme la Turquie doit déjà une contribution de guerre à la Russie, si celle-ci en exige le paiement, cela nuira à la garantie du chemin de fer, et réciproquement."

Le 24 Mars, 1902, M. Delcassé, Ministre des Affaires Étrangères, avait dit à la Tribune de la Chambre :—

"... Si une solution était trouvée où l'élément Russe aurait pleine faculté d'entrer et où l'élément Français aurait, dans la construction, dans l'exploitation et dans la direction de l'entreprise, une part absolument égale à celle de l'élément étranger le plus favorisé, je demande à la Chambre s'il n'y aurait pas lieu de se féliciter de cette participation."

Lorsque les perspectives d'émission obligèrent le Gouvernement Français à s'occuper du Bagdad, le Ministre des Affaires Étrangères jugea que les conditions qu'il exigeait n'étaient pas réunies.

La Russie se refusait à favoriser la construction du Bagdad. L'Allemagne conservait dans l'affaire une légère prépondérance. Il refusa d'y souscrire. Le premier tronçon du Chemin de Fer de Bagdad fut construit par la Société d'Anatolie avec l'aide de capitaux Français, mais ces capitaux furent fournis par des banques, et il n'y eut pas d'émission publique de titres.

Depuis 1903 l'affaire du Bagdad n'a pas progressé. En dépit des informations fantaisistes, elle n'a été à aucun moment l'objet de négociations officielles entre la France, l'Allemagne et l'Angleterre. Et cela s'explique aisément. La Concession du Bagdad a été accordée à l'Allemagne, et avec notre assentiment à l'Allemagne seule. Il serait peu correct qu'un Gouvernement étranger entamât une conversation sur

cette affaire avant d'y être invité par l'Allemagne elle-même. Or, s'il est possible et vraisemblable que des financiers Allemands et Français aient échangé des vues sur le Bagdad, il est du moins certain que le Cabinet de Berlin n'a pas manifesté le désir d'en faire l'objet de pourparlers diplomatiques. La première section de 200 kilom. s'est donc terminée en silence, et sans qu'un accord soit intervenu. Il s'agit maintenant de continuer d'Eregli à Adana, à travers le Taurus, la construction de la voie ferrée. Cette section est une de celles qui exigeront le plus de travail et le plus des capitaux. On en est donc venu tout naturellement à parler de l'appui que l'or Français pourrait offrir aux entrepreneurs Allemands. En outre, il s'est passé récemment au Conseil de la Dette Ottomane des événements qui ont une réelle importance si l'on se souvient que le Firman de Concession accordé par la Turquie ne prévoit aucune garantie d'intérêt pour l'exploitation du Bagdad.

On sait qu'il est question depuis près d'un an d'élever de 8 à 11 pour cent les droits de douane *ad valorem* sur les importations en Turquie. Cette augmentation a pour but de permettre l'accomplissement des réformes en Macédoine. Les négociations auxquelles elle donne lieu durent depuis plusieurs mois, et nous n'avons pas à en redire ici toutes les péripéties. On évalue à £ T. 800,000 le produit de cette surtaxe. Un quart de cette somme revient de droit à la Dette Ottomane. Les £ T. 600,000 qui restent ne suffisent pas aux besoins financiers des quatre vilayets. Il a donc été entendu en principe que la Porte mettrait annuellement £ T. 250,000 à la disposition de ce budget spécial. Elle doit se les procurer par un accord avec le Conseil d'Administration de la Dette.

Deux sources différentes peuvent procurer à la Dette Ottomane les excédents qui sont nécessaires pour faire face à cette dépense :

- (1.) Les dîmes affectées aux garanties kilométriques dont elle a la gestion ;
- (2.) Les revenus anciens qui lui ont été concédés.

Ces excédents sont déjà utilisés pour une part au service des intérêts et à l'amortissement de l'emprunt d'unification ; de plus, ils constituent la garantie d'avances diverses faites par la Dette au Gouvernement. C'est le solde qui doit fournir les £ T. 250,000 du Budget Macédonien.

Or, la question se posait de savoir si l'on prélèverait cette somme sur les excédents des dîmes seulement ou sur l'ensemble des excédents. Le Conseil d'Administration de la Dette semblait devoir adopter la seconde combinaison, lorsque le Délégué Allemand s'y opposa et demanda que les £ T. 250,000 fussent fournies uniquement par les excédents des dîmes. Ils sont amplement suffisants, expliqua-t-il, et l'expérience des dernières années permet dans une certaine mesure cette affirmation. Mais ce qui explique surtout son attitude, c'est qu'il y a de bonnes raisons de croire qu'en 1904 un accord est intervenu entre la Porte et les groupes financiers Allemands pour que les excédents produits par les revenus anciens soient affectés à la garantie d'intérêt du Chemin de Fer de Bagdad.

Le Délégué des porteurs Anglais combattit la proposition Allemande pour des raisons administratives. Il dit que les excédents de dîmes des dernières années pouvaient ne pas se reproduire les années prochaines ; que ce revenu était aléatoire par nature ; qu'il serait ridicule, si un déficit se produisait, de voir la Dette emprunter d'une part pour le Budget Macédonien et remettre, d'autre part, au Gouvernement Turc les excédents produits par les revenus anciens. Cette thèse ne prévalut pas. Le représentant Anglais fut seul de son avis, et la combinaison Allemande, soutenue énergiquement par le Délégué Ottoman, fut adoptée par le Conseil.

Tel est l'état actuel de la question qui préoccupe si vivement une certaine partie de l'opinion. Une concession purement Allemande, un accord de groupes financiers pour l'exécution (Mai 1899), un Accord Turco-Allemand pour la garantie d'intérêt (1904). Pas de pourparlers officiels entre Gouvernements. Quant à l'avenir, il ne nous appartient pas de le prédire. Tout au plus peut-on indiquer quelles paraissent être les intentions des Grandes Puissances intéressées.

La France ne peut pas se désintéresser de la construction de cette voie ferrée. Elle ne doit cependant pas se laisser fasciner par cette entreprise comme une alouette par un miroir. Le Bagdad est au premier chef un chemin de fer d'intérêt politique et militaire. Un brillant avenir économique lui paraît réservé par les régions qu'il traversera. Mais bien des années passeront avant que son exploitation procure les bénéfices qu'ont envisagés ses promoteurs. Pour des raisons politiques, pour des raisons militaires, pour des raisons économiques, la France doit être intéressée à la construction du Bagdad.

L'Allemagne, d'ailleurs, n'est pas opposée à notre participation. Même si le

Gouvernement Turc accorde au "railway" une garantie kilométrique, il sera difficile, sinon impossible, à nos voisins de trouver chez eux les millions qu'absorberont les travaux d'art et les frais de premier établissement du chemin de fer. L'Accord de Mai 1899 montre que les financiers Allemands se sont dès la première heure rendu compte de cette situation. En dehors de toutes les questions de correction et de dignité, il y a donc de sérieuses raisons matérielles qui s'opposent à ce que nous offrions à l'étourdie un concours qu'on ne sollicite pas officiellement. Mais s'il arrive que l'Allemagne manifeste le désir de s'entendre avec nous sur cette question, nous serions impardonnables d'être pris au dépourvu.

Or, nous serions pris au dépourvu si nous n'avions pas auparavant défini notre politique par un Accord avec l'Angleterre. Dequies 1903 la situation politique internationale s'est assez sensiblement modifiée. L'Accord Franco-Anglais est un des principaux facteurs de ce changement. Si nous n'avons qu'un intérêt secondaire—quoique très réel—à la construction du Bagdad, l'Angleterre lui attribue une importance tout à fait primordiale. Il y a même lieu de redouter qu'un conflit assez grave ne résulte des progrès éventuels du "railway" à travers la Mésopotamie, si un accord ne concilie pas par avance les intérêts contradictoires de l'Angleterre et des concessionnaires du Bagdad. Dans ces conditions et en raison de l'entente cordiale, il ne serait ni sage ni prudent de notre part d'agir indépendamment du Gouvernement Britannique. Et par contre, il ne serait ni sage ni prudent de la part de la Grande-Bretagne d'adopter une attitude d'hostilité systématique à l'égard du Chemin de Fer de Mésopotamie. Nous croyons savoir que des conversations sur ce sujet ont déjà eu lieu entre Londres et Paris, mais nous avons des raisons de craindre que ces conversations n'aient eu qu'un caractère très général et qu'elles n'aient donné lieu à aucun accord défini. Or, chacun sait que les arrangements verbaux causent par leur imprécision bien des mécomptes. Nos intérêts, dans cette affaire, ne contredisent aucunement les intérêts de l'Angleterre. Ces derniers eux-mêmes, pour opposés qu'il soient à ceux d'Allemagne, ne semblent pas inconciliables. La solution du Bagdad aurait donc fait un grand pas si la France et l'Angleterre s'accordaient d'ores et déjà d'une façon précise, avec l'arrière-pensée et le désir de préparer un terrain d'entente pour le jour où l'Allemagne manifesterait officiellement le désir de régler cette affaire.

Ce règlement serait d'autant moins difficile à obtenir que la Russie ne fait plus au Bagdad l'opposition qu'elle y faisait il y a quelques années. On peut d'ailleurs imaginer une combinaison qui l'intéresserait à l'entreprise et qui, conjuguée avec l'Accord Anglo-Russe, protégerait amplement ses intérêts. Les Allemands, qui se sont montrés depuis 1904 si friands d'internationalisation, ont là une riche occasion d'appliquer leur doctrine favorite. S'ils veulent vraiment, s'ils veulent sincèrement internationaliser le Chemin de Fer de Bagdad, il est probable qu'ils rencontreront un accueil favorable auprès des Gouvernements intéressés.—MARCEL ROUFFIE.

[2214]

No. 4.

Sir C. Spring-Rice to Sir Edward Grey.—(Received January 21.)

(No. 15. Secret.)

Sir,

Tehran, January 4, 1907.

I HAVE the honour to state that I had good reason to believe that some days ago a long cyphered despatch was received by the German Legation from Berlin on the subject of Russo-German relations in Persia, and that a report had been called from the German Minister. Since then I have received information to the effect that Russia has offered to withdraw her objections to the Bagdad Railway, and generally to German enterprise in Mesopotamia, on the condition that she herself should have the right of constructing the Khanikin-Bagdad branch and of fixing the tariff on the railway when constructed. I need not point out that the tariff as fixed by Russia would make all trade from the south or west to Persia by that route impossible, and would give Russia the monopoly of Persian trade, which, so far at least as concerns imports, would be reserved for Russian industry and the Tiflis-Tabreez-Hamadan route. I believe that the German Minister's reply was in this sense.

I have, &c.

(Signed) CECIL SPRING-RICE.

[2344]

No. 5.

Mr. G. Barclay to Sir Edward Grey.—(Received January 21.)

(No. 34.)

Sir,

Constantinople, January 15, 1907.

I HAVE the honour to acknowledge the receipt of your despatch No. 558 of the 22nd ultimo, inclosing a copy of a despatch from His Majesty's Ambassador in Paris, in which Sir F. Bertie reports a conversation with M. Gaston Auboyneau, Administrator of the Ottoman Bank in Paris, respecting the recent action of the French Delegate on the Ottoman Debt in the matter of the Debt's guarantee for an annual sum of £ T. 250,000 for Macedonia.

I have no reason to doubt that M. Auboyneau's opinion is correct, that there exists an Agreement between Germany and the Sultan for the eventual application of the surplus of the ceded revenues as security for loans for the construction of the Bagdad Railway. When this Agreement is to become operative is, of course, uncertain, but the anxiety shown by Baron Marschall for the conclusion of the Customs negotiations before March, which is the date spoken of by Germans in Constantinople for the resumption of construction work on the Bagdad Railway, lends some colour to the belief entertained by many, that the hypothecation of the surplus of the ceded revenues is conditional on, and is to be simultaneous with, the Powers' consent to the 3 per cent. customs increase. M. Auboyneau is, I think, wrong in stating that this surplus is tied up for three years. I am given to understand by Mr. Block, as reported in my telegram No. 216 of the 7th ultimo, that even though since M. Auboyneau's interview with Sir F. Bertie the surplus has been pledged for an additional sum of £ T. 250,000, all but the permanent charges will have been cleared off in the natural course by March 1909. The fact, however, that this surplus is tied up for a year or two need not preclude it from serving as security for a loan to be raised immediately, though the bonds would naturally have to be issued at a lower level than if the surplus of the ceded revenues were immediately available for interest; but, besides this consideration, it is not at all impossible that the provisional charges will be wiped off long before 1909, either with the proceeds of a loan, or with funds from some other source, and in this connection it is not out of place to mention that a scheme is on foot, under the auspices of M. Rouvier and Bleichröder's, for the extension of the tobacco monopoly by which the Ottoman Government will receive a lump sum of £ T. 3,000,000.

I am surprised at M. Auboyneau's statement that the Ottoman Bank has had no negotiations with the Deutsche Bank or with Mr. Gwinner regarding the Bagdad Railway for several months. It is certain that at the time the Porte's note of the 9th November, regarding the 3 per cent. interest in the customs duties, was drafted, the German Ambassador was anxious that the negotiations between the Porte and the Debt, with a view to the guarantee for Macedonia, should be deferred until Commandant Berger's return from leave, and his Excellency was, I am convinced, himself responsible for the insertion in the note of the passage to this effect. It may be presumed, therefore, with some confidence, that Baron Marschall felt sure that he could count on the French Delegate's attitude in the negotiations, and I cannot quite divest myself of the suspicion that Commandant Berger, who some time before had telegraphed to Mr. Block that he entirely agreed with him as to pledging the surplus of the ceded revenues as well as the tithes surplus for Macedonia, was furnished with instructions, at German bidding, by his group in Paris to protect the former surplus as far as possible for the purpose of the Bagdad Railway. This, however, is now a question of merely academic interest. What is really important is the assurance given to Sir F. Bertie by M. Auboyneau that in all dealings in connection with the Bagdad Railway the Ottoman Bank will act in accordance with the wishes of the French Government. It is to be hoped that the Bank will act loyally up to this assurance.

In conclusion, I should mention that I do not altogether share M. Auboyneau's opinion that, even had Commandant Berger voted with Mr. Block at the meeting on the 10th ultimo, they would have been outvoted by their colleagues, as I can hardly believe that the Italian and Austrian Delegates would have been willing to vote against a combination of the two Delegates who alternately fill the office of President of the Council, and who between them represent more than 75 per cent. of the bondholders, especially as the Italian and Austrian Delegates had on the 3rd ultimo shown

themselves ready to accept a much more far-reaching arrangement than that urged by Mr. Block at the following meeting.

I have, &c.
(Signed) G. BARCLAY.

[2257]

No. 6.

Sir A. Nicolson to Sir Edward Grey.—(Received January 21.)

(No. 83. Confidential.)

Sir,

St. Petersburg, January 16, 1907.

IN view of the report to which Sir C. Spring-Rice alluded in his despatch No. 15, Secret, of the 10th instant, I inquired of M. Isvolsky to-day whether he had received any fresh news in regard to the Bagdad Railway. His Excellency said that he was under the impression that we had decided to discuss between ourselves the best mode in which the three Governments of Great Britain, Russia, and France could participate in the undertaking. I said that this was the case, and that I hoped shortly to be in a position to give him some confidential information for his guidance as to the manner of effecting the participation. I understood that we would all wait for some move on the part of Germany, and from a casual observation made to me by the German Ambassador there did not seem to be any immediate probability of the German Government making that move. I thought that perhaps M. von Schoen might have mentioned the matter of foreign participation to him. M. Isvolsky replied in the negative, and then turned to other subjects.

I have, &c.
(Signed) A. NICOLSON.

[2800]

No. 7.

Sir F. Bertie to Sir Edward Grey.—(Received January 25.)

(No. 44. Confidential.)

Sir,

Paris, January 23, 1907.

M. PICHON told me to-day that M. Constans would be in Paris shortly, and that since the policy of the French Government in regard to the Bagdad Railway had been forcibly impressed on the Ambassador by the instructions which had been addressed to him in consequence of the Berger incident his tone had entirely changed, and his letters were to the effect that the policy of acting with England was the one which he had always thought the best.

M. Pichon said that when he saw M. Constans he should leave him in no doubt as to the intentions of the French Government, and the Ambassador was very adaptable, and would know how to comport himself when he realized the situation.

I have, &c.
(Signed) FRANCIS BERTIE.

[2962]

No. 8.

Sir G. Mackenzie to Foreign Office.—(Received January 26.)

*23, Great Winchester Street, London,
January 25, 1907.*

Dear Sir Charles Hardinge,

I SEND you copy of a letter I have addressed to Sir Hugh Barnes, of the In Council, somewhat similar, but with one or two important additions, to the one I wrote you in October last.

Sir Hugh is a personal friend, and as I understand he represents the Foreign Department in the Council, I thought it desirable to ventilate the subjects in that quarter also.

I have no personal pecuniary interest in the Transport Company, and so leave the matter to be dealt with further by the Imperial Bank of Persia, whose representative I was at the annual meeting of the Transport Company.

Yours, &c.
(Signed) GEORGE S. MACKENZIE.

Inclosure in No. 8.

Sir G. Mackenzie to Sir H. Barnes.

*23, Great Winchester Street, London,
January 21, 1907.*

Dear Sir Hugh Barnes,

THE knowledge you possess of Persian politics and the special interest I know you have always taken in them induces me to address you regarding the present position there.

As representative of the Bank of Persia, I recently attended the annual meeting of the Persian Transport Company, one-third of the capital of that Company being held by the bank, and the remaining two-thirds by the Euphrates and Tigris Steam Navigation Company, there being no other shareholders.

The Transport Company grew out of the Concession for road construction in Persia originally held by the bank, and which they at one time were on the point of selling to a Persian, no doubt acting for Russia.

At the request of the Foreign Office I intervened. This sale was prevented and arrangements concluded whereby the Euphrates and Tigris Steam Navigation Company purchased the bank's Concession, and formed the Transport Company as it now exists.

His Majesty's Government has long been alive to the political and commercial importance of supporting any reasonable effort for the construction of roads in Southern Persia, as is evidenced by the action of the Foreign Office in 1874, when I opened the route from Mohammerah to Ispahan, and urged the opening of the River Karun to navigation; and again in 1886, when I was in negotiation with the Persian Government, with the full knowledge and approval of the Foreign Office and India Office, for the construction of a light line of railway from Mohammerah via the Valley of the Diz to Hamadan and Kermanshah, the records of which are no doubt available in the India Office; and then again on the formation of the Transport Company.

The object of these negotiations I need not say was to "peg out our claim" and so prevent Russia from obtaining a monopoly which would practically force the British position back to the Persian Gulf littoral, thereby closing the trade of the Gulf to us, as has been done at Batoum and on the Caspian.

Since those days the active intervention of Germany in Turkey and Persia renders the present position more important and critical than if we had to guard against the Russian advance from the north alone. The better feeling at present existing between ourselves and Russia and the advent of a new Shah renders the present time peculiarly opportune for the reconsideration of this most important political and commercial question.

One of the clauses in the Turco-German Railway Convention is so astutely worded that when the Bagdad section of the line comes to be constructed Germany can claim the right to place an unlimited number of steamers on the Tigris, which would prove the death-blow to the position we have held for so many years at Bagdad, and which forms the real base of our sea-borne trade in South and South-West Persia.

Should we remain indifferent to the consideration of the subject, I greatly fear that once any other foreign Power obtains a foothold upon the Bagdad-Kermanshah-Hamadan route to Tehran it will be difficult, if not impossible, for us to retrieve a position which I believe can now be secured at but comparatively trifling effort and cost by utilizing the agency of the Euphrates and Tigris Steam Navigation Company, and getting them to extend the Concession of the Transport Company by adding to it the road from Hamadan and Kermanshah to the Turkish frontier at Khanakin, and the construction of the road from there via the Dizful Valley to Ahwaz and Mohammerah, which, too, would render the important Persian trade passing through Bagdad independent of Turkish control or dues.

Should the opportunity present itself for demarcating our sphere of influence in Persia vis-à-vis to Russia, I trust the difficulty experienced with the Congo State in British East Africa through adopting a strict line of latitude may be avoided. In Persia the 34th degree of latitude appears to serve the purpose, but, on reference to the map,

[1715]

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you will observe that such a line just cuts out from the southern sphere the very important trade route from Bagdad, while, too, it would have the effect of bringing the Russian sphere beyond the comparative desert track which separates the northern and south-western provinces, and bring her on to the fringe of the fertile lands in the southern sphere.

Kum, on the Tehran-Ispahan road, is in my view the suitable and reasonable meeting point of the British and Russian spheres of influence. If a point be taken on the Turkish frontier, from which a line running, say, 30 miles north of the Bagdad-Kermanshah-Hamadan-Tehran road would run to Kum, and thence drawn across the Great Salt Desert to its intersection of the 34th degree of latitude on the Afghan frontier, this would give us all we need trouble ourselves about in South and South-West Persia, as well as protecting the route via Seistan to Meshed.

Some years ago a German had the Concession for the Kamadan-Kermanshah road, but I believe it has long since lapsed, and we ought to endeavour to anticipate its revival.

To widen the base of the Transport Company it would be necessary to bring in other shareholders and increase its capital, and this could only be done successfully by the Government granting a small subsidy. The obstacle which may be presented by the Treasury might, in the first instance, be overcome by increasing the existing Bagdad postal subsidy, which increase could be specially ear-marked for the Transport Company, and this, again, might fully be provided for by bringing in the co-operation of the Persian Government, they hypothecating the new and increased customs revenue to be derived from extended grain cultivation and export, besides the great increase that would rapidly be effected on their existing customs and land revenues.

I am on the most friendly and intimate terms with several influential Persians at Tehran, through whom I could easily open informal negotiations without arousing undue suspicions, if only I felt that we might rely upon material support from our Government.

What I advocate is not from any personal motive, nor is it with any idea of hampering Russian interests in her legitimate sphere, which lies in the richer northern provinces bordering the Caspian.

I believe the co-operation of Russia and England in upholding the territorial independence of Persia would best further British and Russian commercial interests alike, while it could not fail to strengthen the political, financial, and commercial standing of Persia herself.

As regards our commercial interests in Persia, I may mention that in 1885 the tonnage of British steamers calling at the Persian Gulf ports aggregated 67,688; in 1895 it rose to 167,220, and in 1905 it reached 182,180 tons, while the foreign steamers in 1905 only reached a total of 7,260 tons.

I inclose a rough sketch map for ready reference,* illustrating the routes I have referred to, and showing their bearing on the general question.

Yours, &c.
(Signed) GEORGE S. MACKENZIE.

[3134]

No. 9.

Mr. Cartwright to Sir Edward Grey.—(Received January 28.)

(No. 7. Confidential.)
Sir,

Munich, January 25, 1907.

I HAVE the honour to report that since my return to Munich I have been trying in various ways to obtain some information with regard to the present position of the Bagdad Railway question in Germany, but I find in banking circles great reticence when dealing with this subject, and the attitude assumed by bankers generally towards a foreigner who tries to make inquiries as to the Bagdad scheme is that there is plenty of money in Germany to complete the undertaking.

I have succeeded, however, in obtaining indirectly some slight information on the financial side of the Bagdad Railway scheme which it may be of interest to report to you. Herr Tischler, one of the Directors of the Branch in Munich of the Berlin Imperial Bank, stated to my informant that negotiations were going on between Paris and London with regard to the participation of French and English capital in the undertaking

* Not printed.

and that until these negotiations had made more progress he was reluctant to discuss the situation of the Bagdad Railway. This much, however, my informant obtained from Herr Tischler that Germany's desire for the participation of foreign capital was clearly indicated by the international character given to all publications, statements and appeals made by the German Syndicate as to the construction of the railway, but Germany never would nor could consent to yield up her prerogatives, that is to say, the control of the enterprise; and if the participation of foreign capital could only be obtained by the surrender of her position, she would renounce such foreign assistance, and in his opinion she would be able, if put to it, to obtain the necessary financial help in this country for the completion of the enterprise, but he added that Germany would prefer at present not to have to face such an eventuality.

From inquiries I have made from persons connected with the Munich Bourse I gather that scarcely anybody here takes the slightest interest in the Bagdad scheme or holds any shares in that enterprise, in fact I am told that no quotations are made as to the shares of the Company as there is no business done here with regard to them.

A financial person stated that there was "keine Stimmung" (no interest), among Bavarian investors for very distant enterprises, but in his opinion there seemed to be a slight change in this attitude of quite recent date for he had noticed that there was some disposition to invest in a new Siamese Loan and this might be taken as an indication that should the Bagdad Railway Syndicate try to float a loan in Germany a certain amount, though probably small, might be subscribed in Munich.

I may add that the presence of Herr Dernburg in South Germany and the propaganda he is carrying on in favour of mining, railway, and other undertakings in the Colonies, as reported in my despatch No. 4, Confidential, of the 23rd instant, is not unlikely to arouse in the public, perhaps only temporarily, an interest in speculative enterprises in distant countries.

I have, &c.
(Signed) FAIRFAX L. CARTWRIGHT.

[3291]

No. 10.

India Office to Foreign Office.—(Received January 29.)

THE Under-Secretary of State for India presents his compliments to the Under-Secretary of State for Foreign Affairs, and, by direction of Mr. Secretary Morley, forwards herewith, for the information of the Secretary of State, copy of inclosures in a letter from the Foreign Secretary to the Government of India, dated the 27th December, 1906, relative to the Khor Zobeir, a continuation of the Khor Abdullah.

Copy has been sent to the Admiralty.

India Office, January 28, 1907.

Inclosure 1 in No. 10.

Major Cox to Government of India.

(Confidential.)

Bushire, November 20, 1906.

IN your letter dated the 12th June you informed me that the Government of India would be glad to know more about the Khor Zobeir, a continuation of the Khor Abdullah.

I took the matter up on my return from Simla, and you will see from the accompaniments what has since transpired.

Commander Beauchamp was at a great deal of pains to have the work done thoroughly though not on his programme, and we are much indebted to him for the accurate chart which he has now furnished.

The Government of India will, I feel sure, find the results at any rate most interesting, though obviously not specially conducive to our interests.

I notice from the chart—

1. That the channels penetrate to within 10 and 11 miles of the Shatt-el-Arab at Bussorah and Mohammerah respectively.

* Not printed

2. That 3 fathoms of water can be got at low tide to within 15 and 13 miles of Bussorah and Mohammerah respectively. This depth compares very favourably with the present bar outside the Shatt-el-Arab, which gives only $1\frac{1}{2}$ fathoms at its shallowest part.

3. The positions of Rafdiyah, Safwan, and Jebel Sanam have been materially modified by Commander Beauchamp's observations.

Whether the Germans have knowledge of the Khor Zobeir it is difficult to say.

In any case I may leave it to more expert heads than mine to gauge the extent to which the present discovery favours Bussorah and Turkish territory at the expense of Koweit, as alternative termini for the Bagdad Railway.

I forward herewith Commander Beauchamp's sketch in original, and also my own copy of Admiralty chart No. 3293, in which he has plotted out the fresh details.

I request that the latter may be returned to me after perusal, and that if the new sketch is printed I may in due course receive three copies.

If any further work is desired in the Khor Abdullah, it would be convenient if I could receive early intimation.

Inclosure 2 in No. 10.

Consul Crow to Major Cox.

Bussorah, August 3, 1906.

IN reply to your inquiry nothing is known here of a Khor Zobeir. I visited Umm Kasr twice in 1903, and found no trace on any waterway between Zobeir and the head of the Umm Kasr Creek, which extends in the direction of Zobeir for about 4 miles from the point where it joins the Khor Abdullah. There are no swamps, creeks, or channels between Umm Kasr and Zobeir. The distance from Zobeir to the head of the Umm Kasr Creek is about 30 miles. The idea of a canal or waterway of any use for ships leading from Umm Kasr to Zobeir seems unfounded. Captain Smyth, who travelled with me, states in his Report that there are several old canals intersecting the country lying east of a line drawn between Umm Kasr and Zobeir, but these seem shallow. In riding across country in a south-westerly direction from Hamadan to the Khor Abdullah on the tract east of Zobeir I noticed no such old canals. Captain Smyth did not go east of the road from Zobeir to Umm Kasr. This tract of country is inundated at times from May to mid July by the overflow of the Euphrates. This overflow runs in a south-easterly direction to the Khor Abdullah, between the date tree belt fringing the Shatt-el-Arab and the Zobeir-Umm Kasr road, which is on slightly raised ground. When the floods are out, native sailing craft of small draught, such as bellems, can cross the desert from Bussorah to the higher ground within about 3 miles of Zobeir. Sea communication between Zobeir and the Khor Abdullah is possible by means of the Umm Kasr Creek, or by a small channel to the east of that on which the Umm Kasr Fort is situated. I do not think the latter channel, which I visited with Mr. Lyle in 1903, is any nearer to Zobeir than the head of the Umm Kasr Creek proper. I saw no boats on either, and travellers from Zobeir would have a land journey of about 30 miles before they reached water. In the high water season, from May to July, navigation in a light draught boat is possible from the Jami, 3 miles east of Zobeir, to Khor Abdullah. But this is the result of the overflow of the Euphrates, increased at times by the south winds which drive the water inland.

I am unaware of the nature of the country west of Zobeir—that is, in the direction of Sefwan. This tract is said to be flooded also in the high water season, and communication between Zobeir and Sefwan is said then to be possible by water.

Inclosure 3 in No. 10.

Consul Crow to Major Cox.

(Extract.)

Bussorah, August 17, 1906.

YOU do not say in what month you visited the Khor. You may have seen the overflow on the desert on your right as you enter Creek Umm Kasr. The Khor Abdullah is fringed with hedge and marsh, covered at high tide. I believe the tide limit is considerable—a mile or more. Lyle and I hunted for a path to the water for hours several miles east of the Khor Umm Kasr, and it was low tide. We skirted the fringe of the Khor, which was all marsh, and found a well-trodden path through the sand-

hills which brought us out to water with a small stone cairn at the water's edge. A small creek ran up alongside north-west. I took this to be the edge of the Khor Abdullah. We were over fourteen hours going and coming, and rode as fast as we could with about an hour off at mid-day.

Inclosure 4 in No. 10.

Major Cox to Commander Beauchamp.

Bushire, September 20, 1906.

IN a demi-official letter, dated the 12th June, the Foreign Department wrote to me as follows:—

"The Government of India would be glad to know more about the Khor Zobeir, which it is understood is a channel leading towards Bussorah. You are therefore requested to furnish any further information which you may be able to procure regarding it as opportunity offers."

I made a reference to our Consul at Bussorah, who like myself has visited the locality, and attach a copy of his replies. Do you think you could manage to get the question of the approximate boundaries of this so-called "Khor Zobeir" cleared up while you are up here? It would be very kind of you if you could.

In case you have not got it, I inclose a copy of Commander Kemp's rough chart of the locality,* on which the Government of India's query is probably based. Please return it to me when done with. In April last I went up the Umm Kasr Creek past the fort, as far as we could go. It very soon ends altogether; but there is a big stretch of water which one left on one's right on entering the narrow part of the Khor Umm Kasr, just before you come to the fort, the northern boundary of which was not visible within the horizon. This would be about where Commander Kemp shows his Khor Zobeir, but this may only be a backwater or temporary inundation.

The locality is an important one now, as you know, and we should not leave any points regarding it in doubt if we can help it; so you will, I know, do what you can in the matter.

Inclosure 5 in No. 10.

Commander Beauchamp to Major Cox.

(Confidential.)

Koweit, November 2, 1906.

I HAVE the honour to report that, in compliance with your Confidential letter dated Bushire, 20th September, 1906, I have completed a sketch survey of the Khor Abdullah and the extension of the Khor Zobeir to its source.

The survey, though only a sketch, was made by experienced marine surveyors, and with many special appliances supplied to a surveying vessel. I inclose a tracing of the survey, which will show you at a glance the navigable portion of the Khor.

The "Investigator" visited the Khor on two occasions—namely, the 23rd to the 25th September, and the 21st to the 24th October—but did not proceed beyond Umm Kasr Fort. The rest of the work was done in steam-boats. On the second occasion, Major Knox, Political Agent at Koweit, accompanied the expedition to the source of the Khor. Observations for latitude and longitude were taken at "Observation Spot," which, together with true bearings obtained, have determined the correct position of Umm Kasr Fort and Jebel Sanam, the two principal distinctive objects.

The sketch survey has been reduced in scale, and entered upon your Confidential chart of "Approaches to Koweit Harbour and Shatt-el-Arab," Admiralty No. 3293. This may give you a more comprehensive view than the tracing itself.

On neither visit of the "Investigator" were any inhabitants communicated with; only a few were seen, and those were near Umm Kasr Fort. No craft of any description was met with either at the head of the Khor Abdullah or in the Khor Zobeir.

The water was nowhere otherwise than absolutely salt. The navigation is not simple for a ship of any size. As far as it goes the channel is deep, but when the tide is high the breadth of water in the Khor is, I should say, at least three times as great as at low water. Consequently, a ship is liable at high water to get out of the channel

* Not printed.

and take the ground. I would therefore recommend vessels to navigate between the time of low water and half tide. The channel, as usual, follows the bends, but the latter cannot be recognized at high water. While the "Investigator" was there both the steam-boats got aground at high water at widely different places, and one had to stay there all night, though they only draw 3 feet, and continuous soundings were being taken.

There is a bar at the eastern end of Worba Island, between the Khor Abdullah and Khor Shetana. The depth of $3\frac{1}{2}$ fathoms at low water, shown as least water on the chart by His Majesty's ship "Sphinx," appears to be still about the same. But here also requires careful navigation. The "Investigator" got into her own draught of water (15 feet) owing to the banks being overflowed, thus rendering it impossible to fix the ship's position. As soon as she got into the channel again there was of course plenty of water. These difficulties could easily be overcome with the aid of a few beacons, placed either in the water as buoys or on shore as posts.

Inclosure 6 in No. 10.

Major Cox to Government of India

Bushire, November 30, 1906.

PLEASE see my letter of the 20th November, accompanying papers regarding the Khor Zobeir. When I wrote it I had altogether forgotten Colonel Pelly's description of the Khor in his well-known Report on the "Tribes of the Persian Gulf" (Residency No. 67, dated the 13th April, 1863), and it was not until after I had written to you that I decided to refer to the Report.

Will you kindly read paragraphs 135 and 141 of the Report, from which you will see that what I have just reported on the supposition that it was new is merely what Colonel Pelly described forty-three years ago. I see, too, that Mr. Whigham refers his description of this locality on p. 107 of his "Persian Problem."

It is never really safe to write anything descriptive about features of the Persian Gulf without first seeing what Colonel Pelly has had to say, far-seeing person that he was, and I am sorry I did not take the precaution in this case.

I hope, however, that this postscript will be in time for attachment to my previous letter.

[4029]

No. 11.

Reference Notes on Towns along the Bagdad Railway from West to East, from the War Office Hand-books on "Eastern Turkey in Asia," Vols. III and IV.—(Communicated by Major Maunsell, February 4, 1907.)

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| 1. Adana. | 24. Caravan route, Mosul to Diarbekr. |
| 2. Missis. | 25. Caravan route, Mosul to Bagdad. |
| 3. Alexandretta. | 26. Kifri. |
| 4. Country between Alexandretta and Aleppo. | 27. Kirkuk. |
| 5. Antioch. | 28. Erbil. |
| 6. Aleppo. | 29. Passage of the Great Zab River. |
| 7. Birijik and passage of the Euphrates. | 30. Altun Keupri and passage of the Lesser Zab River. |
| 8. Killis. | 31. Tekrit. |
| 9. Aintab. | 32. Samarra. |
| 10. Country between Birijik and Diarbekr. | 33. Koui Sanjak. |
| 11. Urfa. | 34. Bagdad. |
| 12. Harran. | 35. Museyib. |
| 13. Varaushehr. | 36. Kerbela. |
| 14. Ras-ul-Ain. | 37. Nejef. |
| 15. Samsat. | 38. Hilla. |
| 16. Marash. | 39. Diwanie. |
| 17. Diarbekr. | 40. Rumetha. |
| 18. Mardin. | 41. Samawa. |
| 19. Country between Diarbekr and Mardin. | 42. Nasrie. |
| 20. Feishkhahur. | 43. Bassorah. |
| 21. Zakho. | 44. Zobeir. |
| 22. Jezire-ibn-Omar. | 45. Umkasr. |
| 23. Mosul. | |

For further details see Hand-books.

(Signed) F. R. MAUNSELL, Major.

February 3, 1907.

Reference Notes on Towns along the Trace of Bagdad Railway from West to East.

1. Adana.

ADANA is a town of 45,000 inhabitants, and the capital of a vilayet. There are about 10,000 Armenians and Greeks, and the remainder are Turks and fellah Arabs, with a strange admixture of Ansarie Persians, Afghans, and some Hindoos. In harvest time, for the wheat and cotton harvest, about 5,000 more labourers come into the town.

It is a very flourishing town, the centre for the rich Cilician Plain, and has some large cotton mills, with good bazaars and shops.

The town is on the right bank of the Saihun, a broad deep stream, which supplies the best drinking water.

Spring and autumn somewhat unhealthy, with a damp heat in summer.

Extensive vineyards and gardens, irrigated by water-wheels, surround the place.

2. Missis.

Missis is a small place of 200 houses; about 1,000 inhabitants, chiefly Moslems, with 70 Armenians, Greeks, and Cretan refugees on the right bank of the River Jaihun, where the Adana-Alexandretta road crosses by a bridge.

3. Alexandretta.

Alexandretta is the seaport of the Aleppo Province, and connected with that town by a good metalled road.

It is the seat of a Kaïmakam under Aleppo; contains some 1,000 houses, with 10,000 inhabitants, of whom two-thirds are Greek, built close along the shore of the bay on a low-lying, shingly promontory.

The bay forms the best and most secure anchorage along the coast; large vessels can anchor from 200 to 400 yards from the shore in 7 to 10 fathoms, and discharge into lighters. Only a few light wooden jetties exist at present, but with little trouble an excellent harbour and landing facilities could be created.

Water is from two large springs at the foot of the hills, $1\frac{1}{2}$ miles to the south brought in by ducts. The marshes, which lay in this direction, and were the cause of much malarial fever, have recently been filled in, and the health of the place has improved.

In the districts close round the port some 4,000 tons of cereals are produced annually, whilst the extensive and fertile plain of Adana, the ancient Cilician Plain, lies north of the Gulf of Alexandretta, and not far distant.

Payas, on the coast, a few miles north of Alexandretta, is famous for its oranges.

Several lines of steamers call at Alexandretta. The Prince Line from Newcastle, the Leyland, Moss and Bell's Asia Minor Lines, the Pappayanui Line from Liverpool, the Khedivial Mail from Alexandria, with the Messageries Maritimes, Austro-Hungarian Lloyd, German Levant Line, Italian, Greek, and Turkish Lines.

There are Austrian and French post-offices. A British Vice-Consul, and Consulates of other Powers.

4. Country between Alexandretta and Aleppo.

Immediately east of Alexandretta, the road leads over the Bailan Pass, in the Amanus (Giaour Dag) Range.

The range is sparsely wooded, has numerous ravines, and the summit of the pass by which the "chaussée" crosses is 1,980 feet above sea-level.

Mr. Pauling, who in 1896 specially reported on the practicability of a railway, thought the line could cross the hills just south of the road by a short tunnel, and no great difficulties of construction would be involved.

Beyond the Amanus is a wide valley, through the southern end of which passes the Orontes, and which also contains a large marshy lake, the borders of which forms an

excellent pasturage for cattle, sheep, and horses during the summer, but which in spring extends over and floods the country for some distance.

A branch road leads down to Antioch, near the mouth of the Orontes, the centre of a fertile district.

To the north, a long depression, with several small, marshy lakes and streams, runs up to Marash, at the foot of the Taurus. This district is not as populous as might be owing chiefly to the malaria caused by the numerous lakes, but it could be improved.

The direct route to Aleppo passes through the stony ridges of Kalaat Saman, which the "chaussée" avoids by a wide bend to the north through well-cultivated level ground, which extends up to and beyond Killis.

5. Antioch (*Antakia*).

Antioch is a well-built town of 25,000 inhabitants, among extensive gardens, on the left bank of the Orontes. Steep hills rise to the south, and the valley is filled with gardens. It is the seat of a *Kaïmakam* under Aleppo, and a rich trading centre for cereals, cotton, and liquorice root.

The ruins and walls of the old town extend some distance outside the modern limits of the town.

A good road leads to Alexandretta over the Bailan Pass.

6. Aleppo (*Haleb*).

Aleppo has a population of 108,000, of whom some 25,800 are Christians and 8,000 Jews; is the capital of a vilayet, and the most important commercial centre in North Syria. The town is built on undulating ground chiefly on the left bank of the Koweik, a small stream from the north, which almost dries in summer, and is bordered by gardens in the vicinity of the town. In the centre are the large barracks erected by Ibrahim Pasha during the Egyptian occupation. The streets are well paved and wide enough for carts. The bazaars are extensive, and roofed over for the most part with houses of stone, many two-storied.

The chief importance of Aleppo is its position as a centre of all the trade routes of North Syria.

It connects on the north with the fertile and populous districts of Killis and Aintab, extending up to Marash at the foot of the Taurus.

Eastward, towards the Euphrates, is a fertile district recently settled with numerous villages, and many thriving settlements of Circassians. Important trade routes cross the Euphrates at Birijik, from Diarbekr; while there is also communication down the Euphrates Valley with Meskene, Rakka, Deir-ez-zor, and eventually Bagdad.

To the south the railway is now open to Rayak Junction on the Damascus-Beirut line, passing through Homs and Hama. It is broad gauge to Rayak, where a change is made to the narrow (1.05 metre) gauge of the line across the Lebanon to Beirut or Damascus.

The steep gradients and rack-rail system used between Rayak and Beirut is the great difficulty to through transport to Beirut by this route.

The natural seaport of Aleppo is Alexandretta, connected by a good "chaussée."

The Imperial Ottoman Bank has a branch in Aleppo, and there are Consuls for Great Britain, Germany, France, Russia, Austria, and Italy.

There are some fair hotels and shops for European goods. Aleppo is an important telegraph centre. There is a line to Bagdad down the Euphrates Valley, and one to Constantinople by Alexandretta and Adana. A line runs south to Damascus, and there is connection with Cyprus by cable from Latakia. Also a line to Diarbekr by Birijik, and another to Marash and Albistan.

7. Birijik.

Birijik is an important town on the left bank of the Euphrates at the crossing of the principal trade route from Diarbekr to Aleppo and Alexandretta. It is built on the slopes of a ravine in a whitish limestone cliff above the river, is surrounded by an ancient wall, and contains a ruined stronghold which defended the passage of the river which has been crossed here from the earliest times.

It contains some 10,000 inhabitants, mixed Turk, Arab, and Kurd, with some Armenians and Jews, and is the principal trade centre of these districts for cereals, butter, olive oil, and grapes.

Water plentiful from a spring above the town.

Southwards along the river for some 90 miles is a fertile belt of land producing without irrigation wheat and barley, containing scattered mud villages, and extending on both banks of the river for some 5 miles.

Passage of the Euphrates.

The river at ordinary level is 300 yards wide, and 8 to 10 feet deep, with a fairly strong current. In flood season it becomes 600 yards wide. The approaches on the left bank are much steeper than those on the right. At present the crossing is made in thirteen ferry-boats of rough wooden construction. At Khalfati, some 18 miles upstream, the river is 200 yards wide and 25 feet deep, with a current of about 3 miles an hour, between steep cliffs of white limestone.

8. Killis.

Killis (altitude, 2,080 feet) is a place of 12,000 inhabitants, of whom the majority are Turks, and 4,000 Armenians. Houses of stone, flat-roofed, standing in a mass of vineyards and gardens famous for their olives and fruits. A very fertile plain extends north-west to Aintab. The place itself is Turkish, with a large Armenian quarter to the north-east, and a quarter containing Arabs and Circassians on the other side.

Good water from wells and springs in the hills behind the town.

9. Aintab.

Aintab (altitude, 3,600 feet), the seat of a *Kaïmakam* under Aleppo, is a well-built town with paved streets, and many two-storied houses in the centre of a very fertile but treeless district.

The population is about 40,000, of whom half are Christians, including 15,000 Armenians. There is a rich and flourishing Protestant community, with an American mission college and mission hospital.

Water from the neighbouring hills through an old aqueduct. Good "chaussée" leads to Alexandretta through Killis, and a road to Birijik much used by caravans. Extensive vineyards, pistachio, and olive groves in the vicinity. Country gently undulating towards Birijik, stony ridges, with well-cultivated valleys and several streams.

Extensive olive groves at Nisib, about half-way to Birijik.

10. Country between Birijik and Diarbekr.

The direct route from Birijik to Diarbekr avoids Urfa, and passes north of it through Huvek, and so to Suverek and Diarbekr.

After the ascent from the Euphrates Valley at Birijik, a plateau country with low, stony hills is entered, and shortly after undulating cultivated ground, with several large villages deriving water from wells. Country bare, open, and undulating, with much cultivation of wheat and barley.

Huvek is a large village with good water from a stream.

Suverek is a poor place of 5,000 inhabitants, Kurds and Armenians, among vineyards, with water from springs. Beyond Suverek, a gently undulating country with deep heavy soil, mostly untillied, but growing good grass in spring.

The northern slopes of the Karaja Dag are easy, and present no difficulties to the road. Hills are here strewn with volcanic boulders; the country is undulating, with fertile though stony soil; several villages deriving water from springs and streams.

A stony plain, but with heavy fertile soil, extends for the last 25 miles before Diarbekr is reached.

The Urfa Plain opens southwards into that of Harran; is very fertile, with numerous

villages and fairly well cultivated, although the advent of a railway would induce increased production.

The district of Seruj (between Urfa and Birijik) is also a fertile one, with many villages.

Inhabitants, Kurds, part settled and part nomad.

11. Urfa.

Urfa, the ancient Edessa, is the seat of a Mutessarif under Aleppo, with a population numbering 20,000, of whom 7,500 are Armenians, with about 4,000 Syrians, Jacobite Christians, and Jews. In the villages of the Urfa Plain, including the city, is a population of some 30,000 Armenians. There is a large Protestant community with an American mission in the town. The town is built on two rocky hills, one crowned by a ruinous citadel, and the ancient walls still partly surround the place. A large spring supplies the town with water, and many small springs exist in the plain and are utilized for irrigation. Fuel is very scarce and expensive.

The district route from Birijik to Urfa for a railway is to be avoided because of the steep descent among rocky hills into the Urfa Plain. The German trace of the Bagdad line avoids this by crossing the Euphrates at Jerablus, below Birijik, and passing through Harran in the plain 25 miles south of Urfa. A branch is proposed from Harran up to Urfa. The northern trace, going from Birijik to Diarbekr, would pass through Huvek, from which a short branch could be constructed to Urfa.

12. Harran.

Harran, although standing amongst extensive ruins, is now only a small village of mud huts, a few tents, a ruined castle, and a mosque. The population are half Arab and half Kurd.

13. Veranshehr.

Veranshehr is a small town of 700 houses, of which 100 are Christians. Good water from springs and wells. The place is built among ruins of an older site and inhabited by Kurds, a few Circassians and Syrians, Christians, and Armenians, who are traders and own all the stalls in the bazaar.

It is the head-quarters in winter of Ibrahim Pasha, the powerful Chief of the Milli Kurds. He adopts a policy of inducing Armenians and men of his tribe to settle on the vacant lands round Veranshehr, and is not hostile to Christians.

Between Veranshehr and Ras-ul-Ain is a dreary waste of uncultivated land with few visible signs of life, and an intensely hot summer climate with a scarcity of water at that season.

14. Ras-ul-Ain.

Ras-ul-Ain is a very small place among extensive ruins, close to the sources of the Khabur, which rises here from a large lukewarm spring in a grove of poplars.

The inhabitants are, with few exceptions, Circassians, who arrived here forty years ago, some 9,000 strong, to found a colony, but the country was disturbed, and constant warfare with their neighbours has thinned their numbers until only about ninety families remain. Many have migrated from here to Deir-ez-Zor and Bagdad.

The whole of the broad Valley of the Khabur, containing numerous ancient ruins, remains depopulated, and with very little cultivation.

15. Samsat.

Samsat is an important passage of the Euphrates for roads leading from Urfa to the districts north of the river about Behesne and Adiaman.

It was once a celebrated city, the ruins of which are attested by a large artificial mound on the right bank of the river, but the modern village contains only about 100 houses peopled by Kurds and Turkomans, with an occasional Osmanli and Armenian.

With the advent of a railway passing through Huvek on the way from Birijik to

Diarbekr, this ferry of the Euphrates would regain much of its former importance, and the trade of the fertile districts of Behesne, Adiaman, and Kiakhta would cross here to join the railway at Huvek.

16. Marash.

Marash is a thriving town of 40,000 inhabitants, a third of whom are Armenians, and the seat of a Mutessarif under Aleppo. It is situated at the foot of some steep outliers of the Taurus, and overlooks a wide, well-watered plain to the south.

It is a prosperous town, and the plain is well cultivated with corn and rice, while near the town are vineyards and fruit gardens, while the hills to the north afford excellent pasturage for sheep.

The summer climate is rather unhealthy, owing to extensive rice-growing on the plain; but the high-lying quarter of the town is healthy, and admirably supplied with water from springs.

A good road leads to Aintab, and through there to Aleppo and Alexandretta. Other communications through the northern hills and to the west are difficult tracks.

17. Diarbekr.

Diarbekr is an important commercial centre on a steep bluff overlooking the right bank of the Upper Tigris. It contains some 38,000 inhabitants, nearly half being Christian (Armenians, Jacobites, Chaldeans, and Greek), with the remainder Turks, Kurds, and Turkomans.

In Roman times it was Amida, an important frontier post, and is still surrounded by thick masonry walls built at that period, with subsequent additions.

Fruit gardens, which produce wonderfully in this volcanic soil, line the slope down to the river.

Water supply plentiful and fairly good from springs and an aqueduct.

The plain to the north, extending nearly up to Arghana on the Kharput road, is fertile, growing good corn crops, dotted with villages, and has several streams.

At Arghana Maden are copper-mines, which are known to be of the most productive nature, with remarkably pure ore. They are of considerable extent, and the mineral area extends also to Piran and some places north-east. At present, for want of wood fuel, there is a considerable difficulty in smelting on the spot, and the ore is taken to Tokat, several days' journey.

The richest corn-producing district is that east of Diarbekr, in the wide area between the foot of the Sassun Mountains and the Tigris. This undulating plain country has many large streams, is extremely fertile, and produces cereals and cotton for export. The ruins of the large cities of Tigranocerta and Kharzan are in this district.

Diarbekr is a very important route centre whence "chaussées" radiate to Alexandretta, Kharput, and Mardin, with caravan roads to Bitlis, Sairt, and Mosul through Jezire.

The place is also an important telegraph centre.

There are Consuls for Great Britain and France.

18. Mardin.

Mardin is the seat of a Mutessarif under Diarbekr, built on the south side of a prominent conical hill crowned by an ancient citadel, and commanding an extensive view over the plain to the south.

It has a population of 27,000, of whom half are Christians of the Armenian, Chaldean, Jacobite, and Protestant communities, and the remainder Kurds and Arabs.

The streets are very steep, generally paved in steps, with a few good two-storied houses; but the bazaars are poor for the size of the town. The climate is dry and healthy. Water from springs, which sometimes fail in summer.

Mardin is the chief centre of Jacobite Christians of the Tor Abdin Hills close by, and Deir Zaferan Monastery close by is the residence of their Patriarch. It is an important American mission station.

The Tor Abdin Hills, though stony, grow vines well, and the valleys are fertile.

19. *Country between Diarbekr and Mardin.*

The main caravan route passes through Khaniki on its way to Mardin (62 miles). The first part along the Tigris is fairly well cultivated; the latter part before reaching Mardin is through rocky hills with dry ravines, and the crossing of the watershed would be the most difficult part for railway construction.

From Mardin to Nisibin the country is level with many villages; water from wells.

From Nisibin to Feishkhabur over level cultivated plain through Aznaour, passing many Kurdish villages (water rather deficient here from poor wells), then over open, undulating country sometimes cultivated, sometimes stony, and sometimes grassland. Springs and villages very frequent. Then through some low hills, and a long, gradual descent to the Tigris over gently undulating country generally cultivated, past several villages of Hassana Kurds. Good springs; soil fertile.

Direct route from Nisibin to Mosul adopted by the trace of the German Concession; has practically no villages, and a very poor or non-existent water supply, except for a few miles after leaving Nisibin.

20. *Feishkhabur.*

Feishkhabur (Peshkhabur) is a small village on the left bank of the Tigris, close to its junction with the Khabur, a large stream flowing from the Kurdish mountains through Zakho. It contains 200 houses of Papal Chaldeans in the centre of a fertile area, growing wheat, rice, and cotton, with fruit orchards along the streams.

The Tigris is 120 yards wide and 10 feet to 15 feet deep in the ordinary channel—widening to 350 yards or 400 yards in the flood season—between rather steep banks of conglomerate and gravel. Bed of river shingle and gravel. Many Kurdish villages with abundant water, and surrounded by vineyards along the hill-slopes towards Zakho. At Derebun, on the hill above Feishkhabur, is a very large spring out of the rock.

21. *Zakho.*

Zakho is a place of 4,000 inhabitants—Kurds, Chaldean Christians, and Jews—on an island in the Khabur. It is the seat of a Kaïmakam under Mosul, and is important as a point on the Mosul-Jezire caravan route, and as a centre for the Kurdish mountain districts to the north.

In the hills, about 15 miles north, are some important coal districts, seams appearing on the surface at Harbol, Sheranis, and Marsis. Some years ago coal was taken from here by the Turks to work their Tigris steamers below Bagdad; but as the coal had to be floated down on skin rafts to Bagdad, and the methods of working were very primitive, the working stopped. The district has never been properly examined as to the extent of the coal area. Other coal seams appear on the surface at Amada, near Akra, a long way to the south-east, and possibly a continuous coalfield may be found between these two points.

The plain along the foot of the Judi Dag, from Zakho up to Jezire, has exceptionally rich soil, and grows excellent maize and cotton, besides wheat and rice.

Harbol is a large Christian village, picturesquely situated in a gorge in the hills. Every available patch round it is cultivated with vines, corn, and rice.

22. *Jezire-ibn-Omar.*

Jezire-ibn-Omar is on a low-lying plain adjoining the right bank of the Tigris, where the river emerges from some deep gorges in the Kurdish hills, and is chiefly important as the crossing place of the Mosul-Diarbekr caravan road. It stands on the ruins of the Roman frontier fortress of Bezabde, which then covered the place of crossing.

A bridge of boats is used now, but the ruins of a masonry bridge exist a few miles down. There are 1,500 houses of Kurds and 100 of Chaldean Christians.

In the spring it is the crossing-place for the nomad Kurdish tribes, who winter on the plains west of the Tigris, and then wish to cross over to the upland pastures south of Lake Van.

At that time it is a considerable market for wool and other produce of the tribes, which is floated down to Mosul and Bagdad on rafts of inflated skins.

The river channel is here 150 yards wide and 15 feet deep in June, but in flood it covers a width of 400 yards. There is a Kaïmakam under Mosul.

23. *Mosul.*

Mosul is the principal town in Upper Mesopotamia and capital of vilayet of the same name, situated on the right bank of the Tigris, opposite the ruins of Nineveh. It was formerly one of the principal stages on the trade route from east to west, and the large towns of Nineveh and Nimrod close by derived much of their importance from this.

It is still a great meeting-point of caravan routes from Bagdad, West Persia, Bitlis, and Diarbekr, besides being the centre of very productive districts on the far bank of the river up to the foot of the Kurdish hills.

Population 40,000, mostly Arab and Kurd races, with about 7,000 Christians (Chaldeans, Catholic Syrians, Jacobites) and some Jews.

There are French and German Consuls, and a British Consular Agent. Houses of stone set in gypsum, the larger houses often built round a courtyard.

Water from the Tigris and from rather brackish wells. Bazaar busy and bustling, thronged with Arabs, Kurds, Christians, Jews, and Moslems. Besides wheat and wool, there is a trade in oakgalls, cotton, gum, and hides.

Of the Christians the most numerous (about 500 houses) are the Catholic Syrians, supported by a large French Dominican mission, and under the Archbishop of Mosul.

The Jacobites (also about 500 houses) have a Bishop, and number some of the richest and influential citizens.

The Chaldeans (Catholic Nestorians) are under an Archbishop, called the Patriarch of Babylon.

There are but few Nestorians under the Patriarch Mar Shimun.

The Church Missionary Society have a small establishment. The Government is usually opposed by the Kurds and Arab elements. If the Vali is weak, as happened recently, the power really lies in the hands of Muhammad Sapungi, a rich local Moslem with considerable influence.

At one time Sapungi was in prison and banished, but again regained full power. Local frictions are always active in the place, and have again led to disturbances recently.

The Tigris is crossed by a bridge, partly of stone and partly of boats. The actual river channel is 125 yards wide and 10 feet deep, but the whole width of river bed of shingle and gravel covered in flood only is 550 to 500 yards wide.

24. *Caravan Route from Mosul to Diarbekr.*

This does not follow the direct route across the desert from Mosul to Nisibin (the proposed trace of the railway according to the German Concession), but keeps up the left bank of the Tigris through fertile and well-watered country through Zakho, to cross the river at the boat bridge of Jezire-ibn-Omar, thence it traverses a well populated country with fair water supply to Nisibin and Mardin.

The direct route from Mosul to Nisibin is not used in summer by caravans owing to want of water along it, and owing to lack of villages.

25. *Caravan Route from Mosul to Bagdad.*

This keeps on the left bank of the Tigris, also passing through the populous and fertile districts of Erbil, Kirkuk, and Kifri.

The route along the right bank of the Tigris from Mosul to Bagdad is little used, chiefly owing to want of supplies and of water on the part of the route crossing the Jebel Hamrin.

26. *Kifri.*

Kifri (Salahie) is a place of 6,000 inhabitants on the Bagdad-Mosul road, situated on a stream at the mouth of a gorge in some low, gravelly hills which run east.

The inhabitants are Kurds and Arabs, with a few Jews, and the plain produces good crops of wheat and barley, with an abundant supply of water. It is the seat of a *Kaimakam* under Bagdad.

27. *Kirkuk.*

Kirkuk is a large and growing town of 40,000 inhabitants, principally Kurds, with 700 Chaldean Christians, and included many villages, now almost suburbs, while the surrounding country is wonderfully fertile and increasing in prosperity, the market gardens being famous. In the vicinity are springs of petroleum which have never been properly exploited.

Wheat, barley, beans, and cotton, and in summer various pulses, lentils, haricot beans, tobacco, melons, and a few grapes are grown: 30,000 sheep, the property of the inhabitants, are said to be always on the pastures round the town.

The place is the seat of a *Mutessarif* under Mosul, and an important military centre with the head-quarters of a division.

Water is from the *Kissa Chai*, which flows through the place. It is on the Bagdad-Mosul main caravan route, and a good road leads through Chemchemal to Suleimanie, in the Kurdish hills to the east.

28. *Erbil.*

Erbil, the ancient Arbela, is a place of about 15,000 inhabitants, mostly Kurds, the houses crowded together on an earthen mound rising 200 feet out of the level plain. It is the seat of a *Kaimakam*, and an important point on the Bagdad-Mosul caravan route.

Tracks lead eastward to Rowanduz to North-West Persia, and through *Keni Sanjak* to Wazna Pass.

Water from wells and underground water channels ("karez"); soil, gravelly loam. The surrounding district, with that of *Shemamlik*, has several villages, and grows corn and some rice. Fruit and grapes are brought from the hill districts of the *Sefin Dag*, one day to the east.

29. *Passage of the Great Zab River between Mosul and Erbil.*

Average width of channel at the ordinary season is 120 to 150 yards, 10 feet deep, with a strong current over gravel and shingle at *Kalek*, where the Mosul-Erbil road crosses. An extent of 600 to 700 yards of shingle is covered at the flood season in spring.

30. *Altun Keupri and Passage of the Lesser Zab River.*

Altun Keupri is a place of 600 houses (about 3,000 inhabitants), crowded together on an island $\frac{1}{2}$ -mile long, in the Lesser Zab River. Inhabitants are chiefly Kurds, with some Arabs.

The main river channel is on the south, and just here passes through a short gorge with conglomerate cliffs spanned by an old masonry bridge of one 60-feet arch, so that a railway bridge here would be easy to construct.

The northern channel round the island is often dry, and is some 30 yards wide in flood.

31. *Tekrit.*

Tekrit is a place of 2,000 houses, or 10,000 Arab inhabitants, on the right bank of the Tigris, mostly of mud and stone huts. The population are poor, and supplies are only obtainable in moderate quantities. There are extensive ruins close by.

32. *Samarra.*

Samarra is near the left bank of the Tigris, and a place of 6,000 inhabitants, surrounded by a wall. Many houses are empty, and the place seems declining.

Its chief importance lies in its being a place of Shia pilgrimage for Persians, and it contains several fine mosques.

The river here is 460 yards wide, with a current of 4 miles an hour.

33. *Keni Sanjak.*

Keni Sanjak has a population of 7,500 Kurds with a few Chaldeans and Jews, stands in a fertile basin among gardens watered from a group of large springs and producing pomegranates, apricots, mulberries, figs, besides extensive vineyards.

The surrounding Kurdish hills have fertile valleys and slopes wooded with oak. Water everywhere abundant from springs and streams.

An easy route runs along the foot of the hills to Erbil and over into the Rania Plain.

34. *Bagdad.*

Bagdad is the capital of a vilayet of the same name, built on both banks of the Tigris, but principally on the left. It has a population of 130,000, of whom 70,000 are Moslems (both Sunni and Shia), 35,000 Jews, and 5,000 Christians (500 Chaldeans, 500 Armenians, and 200 Jacobites).

Extensive bazaars arched with brick; extensive transit trade with Persia through *Kerniaushah* as well as by river steamers with Bussorah.

British firms: *Stephen Lynch and Co.*, agents; *Euphrates and Tigris Steam Navigation Company*; *Messrs. J. C. P. Hotz and Co.*, London; *Messrs. David Sassoon and Co.*, London, Bombay, and Calcutta; with a German firm of *Beck, Pütman, and Co.*

There is a branch of the Imperial Ottoman Bank.

There is a Consul-General for Great Britain, and Consuls for the other Powers.

Wheat, barley, wool, and dates are the staple produce of the Mesopotamian Plain.

Corn is sown in November or December and harvested in May or June. An autumn crop of maize, harvested about December, is often raised, too.

Large herds of sheep, cattle, buffaloes are to be found, with camels, mules, and donkeys for transport.

From October to May the climate is cool and invigorating; from July to the middle of September it is oppressively hot.

The average width of the river is 250 yards wide, and in flood 30 to 36 feet deep, and is crossed by two boat bridges.

The river route from Bussorah brings all trade to Bagdad from the south, and the main road through *Khanikin* to *Kermanshah* leads into Persia, and that by *Kirkuk* and *Erbil* to Mosul.

These are the principal routes, and there are others along the Euphrates Valley to Aleppo and Damascus and by the Tigris right bank to Bagdad, and also direct to Suleimanie.

Towns on the Euphrates.

35. *Museyib.*

Museyib is an important crossing, with boat bridge of the Bagdad-Kerbela road over the Euphrates. There are 1,000 houses, mostly on the left bank, and a large covered bazaar, with a floating population of about 1,500 more, mostly Shia Arabs, with many Persians.

36. *Kerbela.*

Kerbela is on the plain, 20 miles west of the Euphrates, connected with it by the Husseinic Canal, which is also the water supply of the town. It contains 5,000 well-built houses, among date groves and gardens, among which the houses are often hidden. Population 60,000, mostly Arabs and Persians, with many Indian Moslems. There is a Vice-Consul for Great Britain.

The Mosque of Hussein, also his burial place, is a peculiar object of veneration for all Shia Moslems, and thus the place is an important Persian religious centre and place of pilgrimage. It is also the centre of a busy agricultural district, and has a well-stocked and busy bazaar.

37. Nejef.

Nejef has a population of 12,000, among whom are many Indian Moslems; contains a mosque with the shrine of Ali, and forms, with Kerbela, one of the Shia places of great sanctity, to which pilgrimages are made and bodies taken from Persia for burial. It is also a centre for the Beni Hassan Arabs.

Water rather scarce from wells; but the best is obtainable from the Hindie Canal, 4 miles off.

38. Hilla.

Hilla is the chief town of a kaza under Diwanie; has a population, including the gardens, of some 30,000, and stands amid extensive date gardens on both banks. There is a boat bridge.

It is an important military centre from which to control the Arab tribes.

The river channel is usually dry now, except in flood, owing to mismanagement of the Museyib barrage, which has forced all the Euphrates water down the Hindie Channel. This is having a serious effect on the date gardens and prosperity of this part of the country.

39. Diwanie.

Diwanie stands on both banks of the Euphrates, but mostly on the east, among small extent of date gardens.

It has a Mutessarif under Bagdad, and is looked on as an important centre from which to control the Arabs of the Lower Euphrates.

40. Rumetha.

Rumetha is a thriving town of about 500 houses, mostly on the right bank of the Euphrates, amid a considerable extent of date gardens. Is an important trade centre for this part of the country, trading in wheat and rice, with a good bazaar.

The river channel here often narrows to only 30 or 40 feet, owing to water having been directed into the Hindie Canal.

41. Samawa.

Samawa is principally on the right bank of the Euphrates, with a good bazaar, and forms a special centre for the corn trade.

The southern bank is lined with extensive date gardens. It is one of the principal towns frequented by the powerful Arab tribe of Muntifik, who cover the country to the south under the leadership of Sadun Pasha, who is often at variance or even open hostility with the Government.

42. Nasrie.

Nasrie is a comparatively modern town and military station, specially meant to overawe the Muntafik tribe to the south. It stands on the north or left bank of the river, and is the seat of a Mutessarif. Several date gardens on the right bank lower down.

43. Bussorah.

The actual town lies 2 miles from the Shatt-ul-Arab River on a canal, is within ruinous walls, and contains 18,000 inhabitants; but, with suburbs, the total population is about 40,000, mostly of Arabs, with 3,000 Persians, 1,000 Jews, and 400 Christians of various sects. Few Turks, besides Government officials. The Consulates and European warehouses are along the right bank of the Shatt-ul-Arab.

Drinking water is from the river, and is not good.

Steamers able to cross the bar at the mouth of the Shatt can ascend easily to Bussorah (67 miles from the sea), and vessels of light draft (small gun-boats) can ascend to Kurna. The steamers anchor in midstream, and all cargo is discharged into lighters.

River steamers ascend the Tigris River to Bagdad, but cannot navigate the Euphrates, owing to shoal water in the marshes, about 50 miles above Kurna. Native sailing boats manage to cross this obstruction, and by means of these river traffic is maintained with Samawa and the towns on the Lower Euphrates.

Bussorah is famous for its date gardens, which line both banks of the river from Kurna to the sea. Corn and rice is also exported.

There are British and other Consulates.

44. Zobeir.

Zobeir is a small Arab town of 2,000 inhabitants in the desert, 10 miles west of Bussorah. Near it is a large spring of good water, and around is a considerable extent of well-cultivated ground.

45. Umkasr.

Umkasr consists solely of two mud forts, one an old one now nearly in ruins, occasionally occupied by Koweit Arabs, and a newer Turkish for some 30 yards square and of little strength, usually containing a small Turkish garrison.

[4706]

No. 12.

Memorandum by Mr. Brant on British Rights by Treaty and otherwise with regard to the Navigation of the Tigris and Euphrates, dated February 4, 1907.

THE rights of British subjects in Turkey are, owing to the expiration of other Treaties, mainly regulated by the Capitulations of September 1675, but no mention is made therein of any rights to navigate the internal waters of Turkey, and the only method of securing such privileges would appear to be by appealing to the most-favoured-nation clause (Article XVIII), which is as follows:—

"That all Capitulations, privileges, and Articles, granted to the French, Venetian, and other Princes, who are in amity with the Sublime Porte, having been in like manner, through favour, granted to the English, by virtue of our special command, the same shall always be observed according to the form and tenour thereof, so that no one in future do presume to violate the same or act in contravention thereof."

The only Capitulations or Treaties which apply to internal navigation are those with Austria, signed at Passarowitz on the 27th July, 1718, the Preamble and Article I; the Séned or "Capitulations Nouvelles" of 24th February, 1784, Articles IV, VI, and VII; the Russian Treaty of 1783, and the Belgian Treaty of 1838 (see below, pp. 2 and 3).

In the Preamble of the first Treaty, the following words occur in the translation given by De Testa (vol. ix, 82): "Leurs Majestés Impériales, animées du désir . . . ont pensé que le moyen le plus propre pour parvenir à ce but était celui d'établir la liberté de commerce par terre, par mer et par les fleuves en faveur des sujets des deux Empires."

Article I of the same Treaty contains the following stipulation: "Aucun obstacle ne sera mis à la liberté des rapports de commerce qui se sont établis par terre, par mer et par les fleuves" in such a manner that the various subjects of the Emperor of Austria "auront la faculté de faire librement le commerce et faire des échanges, dans tous les États de l'Empire Ottoman."

This Treaty was confirmed by the Séned of the 24th February, 1784. Articles IV and VI confirm the grant of the privilege of the navigation of rivers in the following terms:—

"(IV.) Voulant résoudre toute difficulté et tout doute qui pourraient se présenter aux Gouverneurs et autres autorités des provinces relativement au commerce maritime et fluvial, la Porte déclare ici qu'en vertu des Traités, les sujets et négociants Impériaux et Royaux, munis de leurs passeports, ont la facilité d'aller et venir et de faire le commerce dans tous les pays et toutes les provinces de l'Empire Ottoman, soit par mer, soit par les fleuves, d'abord, dans leurs voyages par terre, par mer ou par les fleuves, à tel endroit où ils le croient convenable, d'y débarquer leurs marchandises et d'en embarquer d'autres non prohibées, en payant le droit de douane accoutumé."

"(VI.) Malgré l'exception portée par le Traité de Commerce de Passarowitz, les sujets et négociants Impériaux et Royaux pourront, sous leur pavillon et avec leurs navires et matelots,

librement naviguer, pour leurs affaires de commerce, tant sur les mers, en y entrant par les fleuves, que sur les fleuves en y entrant par la mer, et après avoir acquitté une fois le droit de douane pour toutes les marchandises qu'ils veulent importer ou exporter, ils ne seront plus tenus à payer d'autres droits."

By the Sultan's Firman of May 1784, the various Ottoman authorities were instructed that "les commerçants Allemands" (that is, subjects of the Austrian Emperor) "puissent exercer librement leur commerce sur terre, sur mer et sur les fleuves."

These Treaties, &c., appear to be in force, and are given in "Législation Ottomane" and De Testa's "Collection of Turkish Treaties," and are quoted and referred to by Young in his "Corps de Droit Ottoman" just published.

In referring to these Treaties, Mr. Young, in his "Corps de Droit Ottoman," says: "En présence d'un texte aussi clairement rédigé, la Sublime Porte a renoncé à toute opposition active aux réclamations étrangères." (Vol. iii, p. 65.)

The question of the right of foreign nations to navigate the rivers of the Ottoman Empire under their own flags was raised in 1856 with regard to the Nile and the Mahmoudieh Canal.

Her Majesty's Agent and Consul-General in Egypt reported that certain exclusive rights of towing on the Nile and canals of Egypt had been granted to an Egyptian Towing Company for fifteen years.

His despatch was submitted to the Board of Trade and to the Queen's Advocate, and he was informed on the 17th November, 1856 (No. 40), that "as regards the British flag, this right" [of navigation] "can only be claimed under the Treaty with Turkey of the 16th August, 1838, on the ground that the Sultan has 'granted' it to, or 'suffered it to be enjoyed' by, the ships and subjects of some other foreign Power, and this appears not only not to have been done, but to have been studiously avoided by the Egyptian Government, and not to have been insisted on or exercised by Great Britain; Her Majesty's Government is, therefore, not at present in a position actually and immediately to claim this right."

[With regard to the British Treaty of 1838, it is necessary to remark that we cannot appeal to it, as it was expressly superseded by that of 1861, nor can we appeal to this latter Treaty, which is now also extinct; but we claim most-favoured-nation treatment under the above-quoted Article XVIII of the Capitulations.]

The instructions then continued:—

"With respect to the Treaties* relied upon, if the foreign Governments in question had intended to have secured for their ships, in addition to their right to enter the Nile from the sea and to leave it for the sea, the more special and peculiar right (in derogation of the ordinary law and usage of nations) to carry on the internal trade upon that river, as, for instance, that from Cairo to the first Cataract and back again, it would have been natural that this special and peculiar right should have been clearly and expressly mentioned in the Treaties; more particularly as the Danube is specially mentioned in Article VII of the Treaty between Turkey and Russia of 1783; in the absence of any such mention of it the Egyptian Government may fairly argue *expressio unius est exclusio alterius*." The despatch further stated that the right, if it ever had existed, had been in effect waived or abandoned—at any rate, from 1841 till 1856—"by Great Britain, advisedly and with full knowledge of the subject." It was added that right in question did "not result by necessary implication from the Treaties between Turkey and Austria and Russia." It was further said that, "should the Government of Egypt grant that right to the subjects or ships of any nation generally and indiscriminately, or suffer them so to exercise it, it would then be for Her Majesty's Government to determine whether they would insist upon it in favour of British subjects."

It would appear, however, that in 1841 the Austrian Consul-General in Egypt had protested against the exclusion of Austrian vessels from the navigation of the Nile, and that this protest, which had been made in accordance with the Treaty provisions, had been approved by the Internuncio at Constantinople. It would seem difficult to reconcile the views expressed in the instructions to Mr. Bruce with the clearly stated provisions of the Austrian Treaty of 1718 and the Séned of 1784, quoted above.

The Bagdad Railway Convention of the 5th March, 1903, would not, I think, give us any claim to navigate the Mesopotamian rivers, any privileges of navigation given to the Company by Articles IX and XXIII being limited to the time during

* *I.e.*, the Treaties of 1713, 1783, and 1784.

which the works are being carried on; besides, it is a concession to what is, by Article 2 of its Statutes, an Ottoman Company.

I cannot find that the above-mentioned Austrian Treaties have ever been referred to in the various Memoranda and papers relating to the navigation of the Tigris and Euphrates; but the right of navigating those rivers has been based on the following documents:—

By the Firmans of 1834 and 1841 the right to ply on the Euphrates was given to British Government vessels; these, however, ceased to use the river long before 1862, when the existing Company (Messrs. Lynch and Co.) was formed for the purpose of navigating the Rivers Tigris and Euphrates.

In 1846 an "arrangement" was made with the Porte for regulating the navigation of the Rivers Tigris and Euphrates by vessels under British colours, and prescribing the dues to be paid by such vessels when engaged in that navigation. This "arrangement" was described by Sir S. Canning in his despatch No. 45 of 1846. Under it, British-owned vessels were allowed to navigate the waters of Mesopotamia, either for the purpose of foreign or internal trade, subject to the payment of the proper dues. In the event of their being employed above the usual ports of entry they were to pay certain dues. Sir S. Canning considered that he had thus permanently secured to British merchants the right to navigate under the British flag the waters of Mesopotamia as high as the draft of the vessels would allow. This "arrangement" was notified to the Pasha of Bagdad in a Vizierial letter of the 2nd April, 1846.

In 1861, when Messrs. Lynch were endeavouring to establish their service of steamers on the Tigris and Euphrates, the above privileges were renewed in their favour in a Vizierial letter of the 15th January. The same orders were renewed in 1862, when Messrs. Lynch put their first steamer on the Tigris and opened their line between Bussorah and Bagdad. This line has been in active operation ever since, though the Turkish authorities have made attempts on various occasions to interfere with the operations of the Company. The above details regarding the Firmans, &c., from 1834, have been taken from a note to the Turkish Ambassador of the 6th June, 1884.

The question of the right to navigate the rivers of Turkey was again raised in 1889 in the case of the "Euxine." This vessel was refused access to Bartin, a Turkish port on a river of the same name, which flows into the Black Sea. The refusal of the Turkish Government was based on the fact that Bartin was 4½ miles from the sea, and on that account could not be considered to be a seaport. It was therefore contended that only Turkish ships could have access to it.

In discussing this case a reference was made to the River Boyana, the right to navigate which as far as the town of Oboti had been admitted in the case of Austrians under the provisions of the Treaty of Passarowitz and of the Séned of 1784, the Turkish Government at the same time reserving the "cabotage fluvial" to Turkish subjects.

In Sir P. Currie's despatch a Memorandum, drawn up by Mr. C. N. Elliot, was forwarded, in which a part of Article I of the Treaty of Passarowitz and Articles I and VI of the Séned were quoted; but no reference was made to the words, "dans tous les États de l'Empire Ottoman," at the end of Article I of the Treaty, or to what seems to me to be the far stronger Article IV of the Séned, which gives rights "de faire commerce dans tous les pays et toutes les provinces de l'Empire Ottoman, soit par mer soit par fleuves, d'abord, dans leurs voyages par terre, par mer, ou par les fleuves, à tel endroit où ils le croiront convenable," &c. As a result of this, in the note sent to the Porte, these passages were omitted, and, naturally, in the Turkish answer denying the existence of the rights of navigation claimed, reference to them was also omitted.

The reply of the Porte asserted that the Treaty of Passarowitz and the Séned of 1784 yielded to Austrian subjects rights on the Danube alone, to the exclusion of the coasting trade, which, it stated, was confined to Turkish subjects, and it contended that the Treaties referred to granted access only to seaports. It was also argued that this had been admitted by the British Government, in consequence of their application, in the case of the Tigris and Euphrates, for Firmans to enable Messrs. Lynch and Co. to navigate those rivers.

The force of these arguments was controverted in a note which Sir P. Currie was authorized to address to the Turkish Government. In this note our position was maintained, and it was contended that the Austrian Treaties applied, not only to the Danube, but to the other rivers of Turkey, and the case of the Boyana was quoted in support of this view. The Turkish statements respecting the coasting trade were

Confidential
print, 5017,
p. 139

Sir P. Currie,
No. 98,
Commercial, Decem-
ber 31,
1896.

To Sir P.
Currie,
No. 43,
Commercial, May 6,
1897.

Hon. F.
Bruce,
No. 38,
August 30,
1856.

To Lord
Dufferin,
No. 166,
Commercial, Sep-
tember 20,
1883.

Memoran-
dum, Sep-
tember 23,
1856.

treated as irrelevant, as Her Majesty's Government had put forward no claim to fluvial "cabotage" for British vessels; they had merely asserted their right to proceed to river ports—from the sea to the rivers. The note concluded by a notification that Her Majesty's Government held themselves at liberty to claim and enforce their right whenever they might think proper. This note does not appear to have been communicated to the Porte, as no answer to it is recorded. The question seems then to have resolved itself into a claim for losses, which was eventually settled in 1899 by a payment by the Turkish Government of £ T. 2,000.

The last Treaty I have found dealing with the navigation of the internal waters of Turkey is that between Belgium and Turkey of the 3rd August, 1838, which is still in force. Article XI of this Treaty is as follows:—

"Pour ce qui est du commerce côtier, consistant de produits indigènes ou étrangers, expédiés d'un port à l'autre de l'un des pays des Hautes Parties Contractantes, il est convenu qu'il pourra faire librement par les navires et les sujets des deux pays respectifs; toutefois, il sera assimilé aux Règlements pour le commerce intérieur, appliqués, de part et d'autre, aux sujets des Puissances amies les plus favorisées."

Under these stipulations and our most-favoured-nation clause Sir E. Hertslet held that British ships were entitled to engage in the coasting trade by sea, and to most-favoured-nation treatment as to coasting trade in the internal waters of Turkey.

We may therefore conclude that Great Britain can claim, under the various Treaties above quoted, to be entitled to engage in the navigation of the internal waters of the Ottoman Empire generally—certainly for the direct trade, and I think also for the internal coasting trade,* though this is not so certain; and this, perhaps, may account for our applications for Firmans, and for Lord Stratford's arrangement being made without reference to the Austrian and other Treaties.

Foreign Office, February 4, 1907.

(Signed) R. W. BRANT.

[3134]

No. 13.

Sir Edward Grey to Sir F. Lascelles.

(No. 36.)

Sir,

Foreign Office, February 4, 1907.

I TRANSMIT to your Excellency herewith copy of a valuable Report from His Majesty's Minister-Resident at Munich respecting the Bagdad Railway scheme,† in so far as it is affected by the financial situation in Germany.

I have to request your Excellency will obtain, confidentially, from His Majesty's Consul-General at Frankfort, who is in close touch with banking circles, his views upon this subject, in regard to which His Majesty's Government are anxious to receive full and accurate information at an early date.

I am, &c.
(Signed) E. GREY.

[4580]

No. 14.

Sir N. O'Connor to Sir Edward Grey.—(Received February 11.)

(No. 81. Confidential.)

Sir,

Constantinople, February 6, 1907.

WITH reference to my despatch No. 184, Secret, of the 20th March, 1906, I have the honour to report that Mr. Herbert Nichols, who is, I believe, known at the Foreign Office, called on me on the 4th instant on behalf of Mr. d'Arcy, to ask for my conditional support in the negotiations with the Civil List for a Concession to work the oil-fields of Mesopotamia. The negotiations are, as you are aware, being carried on at present between the Civil List and Messrs. Gilchrist and Walker, of Constantinople, previous negotiation with a German group having broken down. Messrs. Gilchrist and Walker are endeavouring to induce Mr. d'Arcy and the Burmah Oil Company, who hold a similar Concession in Persia, to provide the necessary funds for securing

* *i.e.*, the "cabotage fluvial," or the carriage by ship of goods from one local river port to another.
† No. 9.

the Mesopotamia Concession, but Mr. d'Arcy, who has sunk 250,000*l.*, and the Burmah Company, who have sunk 100,000*l.* in Persia, hitherto without return, hesitate to come forward without reasonable security. The Civil List ask for 30,000*l.* for "preliminary expenses," and for a deposit of 50,000*l.* as caution money, to be returned to the concessionnaires if, after exploration, the oil-fields do not appear likely to yield adequate profits.

Mr. Nichols is now instructed by Mr. d'Arcy to ask whether he would have the support of His Majesty's Embassy in securing the return of the caution money should the case arise. I have told him that if his contract is made with a responsible Department of the Ottoman Government he would certainly have the support always given by this Embassy to British subjects endeavouring to secure their rights. I venture to point out that there is every ground for believing that this Concession, especially as Mesopotamia is developed by the extension of railway communications and irrigation works, will prove exceedingly valuable, and, as I observed in my earlier despatch, the creation of such important British interests in that country will greatly enhance our influence and general position. This being so, you may think it perhaps desirable to speak of the matter to some of the gentlemen who are connected with the Burmah Company.

I have, &c.
(Signed) N. R. O'CONOR.

[4648]

No. 15.

Mr. Block to Foreign Office.—(Received February 11.)

My dear Hardinge,

Constantinople, February 7, 1907.

WITH reference to my letter of the 5th instant, I give herewith the comparative figures of the kilometric guarantees paid for each section of the Anatolian Railway last year and the year before:—

	1905.	1906.	Difference.
Haidar-Pasha-Angora	45,720	51,280	+ 5,560
Eski-Chehir-Konia	112,543	131,744	+ 19,201
Konia-Eregli (Bagdad)	25,266	27,457	+ 2,191

I wish to point out that although, as you will have seen from my former letter, the gross receipts of the Eski-Chehir-Konia section have diminished by £ T. 35,470, the kilometric guarantee paid has only increased by £ T. 19,201; and the reason is that, according to the arrangement between the Government and the Company, the former cannot be called upon to pay more than 4,995 fr. per kilometre (£ T. 21,978), however great the falling off may be in the gross receipts. Therefore, the Government last year paid the maximum kilometric guarantee, and the Company has had to suffer the loss of the difference between the drop of £ T. 35,470 in the receipts and the increase of £ T. 19,201 in the kilometric guarantee, namely £ T. 16,269.

Yours very truly,
(Signed) ADAM BLOCK.

[4700]

No. 16.

Sir N. O'Connor to Sir Edward Grey.—(Received February 11.)

(No. 22.)

(Telegraphic.) P.

Constantinople, February 11, 1907.

MY despatch No. 81, Confidential, of the 6th instant. Mesopotamian oil-fields. I am informed by Messrs. Whittall that they are on the point of negotiating for a three months' option for this Concession with the Civil List. Great importance attaches, in my opinion, to a strong British Syndicate obtaining it. In the event of their refusal, it may be offered to a Belgian firm, and will certainly be offered to others.

Mr. D'Arcy and the Burmah Oil Company meet, I understand, to consider the question to-morrow.

[1715]

I

[5141]

No. 17.

Mr. Cartwright to Sir Edward Grey.—(Received February 16.)

(No. 15.)

Sir,

Munich, February 14, 1907.

IN a recent number the "Morning Post," published information with regard to the Bagdad Railway, to the effect that there was an immediate probability of an international arrangement being arrived at between British, French, and German financial groups for the construction of three sections of this railway, each of which sections would cost 2,250,000*l.*, and be of the length of 100 kilom. These sections would carry the railway as far as Aleppo, and in time would be continued to Damascus, to connect with the line to Mecca. The English paper, moreover, asserted that this matter had formed a subject of the conversation which the German Ambassador held with King Edward in Paris the other day.

These assertions of the "Morning Post" have not passed unobserved in Germany, and their truth has not been generally accepted. As a sample of the criticism to which these statements of the "Morning Post" have been subjected to here, I will draw your attention to an article in to-day's issue of the Munich "Neueste Nachrichten," which is communicated from Berlin.

This article asserts that the statements made by the English paper, although full of details, and in spite of all their appearance of being well founded, are in reality nothing more than a British *ballon d'essai* to ascertain the feelings in Germany on the subject. If in London official circles they are of the opinion that the Franco-German financiers who have obtained the Concession for the construction of the Bagdad Railway are at the end of their resources, they are strangely misinformed. On the other hand, neither the Imperial Government nor the Deutsche Bank have ever made a secret of the fact that under reasonable conditions they would welcome the introduction of British capital in the undertaking. It is well known that originally in England the feeling was in favour of participating in the construction of the Bagdad Railway, but the vigorous action of the Jingo press in the matter caused Mr. Balfour's Cabinet to use their influence to restrain British capital from being engaged in this undertaking. Later on, the British press put forward such unreasonable claims, as, for instance, that the last section of the line, that leading to the Persian Gulf, should be absolutely under British control, that no progress was made in the direction of internationalizing the railway. The situation, therefore, remains as it was, and no diplomatic negotiations are at present being carried on to alter it; consequently the Franco-German Syndicate will continue to complete the line by themselves.

I have, &c.

(Signed) FAIRFAX L. CARTWRIGHT.

[6381]

No. 18.

Sir N. O'Connor to Sir Edward Grey.—(Received February 26.)

(No. 113. Confidential.)

Sir,

Constantinople, February 19, 1907.

I HAVE the honour to transmit herewith copy of a very interesting Confidential Memorandum, accompanied by six Tables of figures, with which Mr. Block has kindly provided me, the tendency of which is to show that the present financial situation of this Empire is in such an unsatisfactory condition that the Government would have absolutely no justification in pledging further revenues for new loans or for the construction of railways.

I quite agree with Mr. Block's views as to the financial and administrative disorganization of Turkey, and also that it would be to the advantage of Great Britain as well as of other countries to induce, were it possible to do so, not the Porte, as Mr. Block says, for this would be a relatively easy matter, but the autocratic and despotic Sovereign of the Empire to adopt a sounder financial policy before embarrassing the Exchequer with heavy charges for further kilometric guarantees.

I do not, however, think that the four Powers would be likely to agree among themselves to interfere in the internal affairs of Turkey in the direct way which would be necessary in order to attain the object in view, and still less do I think that Germany would be willing to co-operate with them in a matter of which the primary object was to delay the further construction of the Bagdad Railway, respecting which

a definite Agreement has been concluded between the Ottoman and German Governments.

The situation would, however, be altered if Germany were to agree beforehand with the three other interested Powers to internationalize the railway, which she is not likely to do at this moment, but even then the task suggested by Mr. Block would be so difficult that probably the Powers would prefer to postpone its consideration until a change of régime here brought it more within the range of practical politics, and held out some prospect that their joint endeavours to place the finances of the Empire on a more stable basis would meet with the support and good-will of Turkey herself.

I have, &c.

(Signed) N. R. O'CONNOR.

Inclosure in No. 18.

Memorandum by Mr. Block.

(Confidential.)

FROM the two statements herewith annexed it is evident that there is no improvement in the financial situation of this country which would justify the Government in pledging further revenues for new loans or for the construction of railways.

The financial administration is such that the question naturally arises how far it is possible to continue on the present lines without risk.

The system followed by the Sultan's Advisers is similar to that of Russia, to which M. Kokovstov has recently called attention—namely, the reckless issue of credits for all sorts of new expenditure without any possible hope of having corresponding resources to meet them, with the result that to meet current expenditure recourse to borrowing is obligatory.

I have shown in the first statement how the annual cost of the debt is increasing. The addition to the burden of taxation borne by the people is calculated to accentuate their discontent. There have been signs during the past few years that this burden of taxation, taken together with a corrupt administration, is producing unrest in the provinces, even among Moslems, which may lead on to a political or to a financial crisis.

The Public Debt of Turkey is comparatively small in proportion to the latent wealth of the country. But the country is undeveloped, and will remain so under the present régime. The Debt is almost exclusively external and is not productive. There is, it is true, a small asset in the newly-constructed railways, but these seem at present to be a permanent charge on the revenues of the country. There is no doubt compensation from the increase of land area under cultivation, which has produced a consequent increase of the tithe revenue and the railways, have naturally produced a certain amount of prosperity; but as long as commerce is obstructed and industrial liberty is interfered with by puerile police measures, and as long as the construction of roads, bridges, tramways, irrigation, and harbour works is neglected, the railways cannot pay their way for a long time to come. Last year, for instance, the season was most propitious, yet the three sections of the Anatolian Railway, which is under excellent management, showed a falling off of £T. 44,340 in their gross receipts (see Report No. 2).

The charges of the Debt, now borne by the population and to be borne by posterity, represent, therefore, practically nothing. The loans have, in fact, been unremunerative.

The forced loan for the Greek war and the forced loan for the Hedjaz Railway are equally unproductive, but, as I have no reliable figures of these loans or other similar loans, I have not taken them into consideration; they have contributed to the drain on the population; the proceeds cannot be said to have been well expended.

The loans raised by Turkey since 1886 must have diverted wealth from private productive employment to Government expenditure. The improvement in the economic situation in many parts of the Empire under these adverse circumstances may be regarded as a proof that the country is capable of development, and that the people possess qualities which should enable Turkey to pay her way, were their energies not stifled by oppressive methods of Government. But, under existing circumstances, the moment would not appear to be opportune for pledging further revenues for the construction of railways or for raising new loans.

The German Government has recently obliged the Porte to reserve the surplus of the revenues ceded to the bondholders for the continuation of the Bagdad Railway, instead of leaving these surpluses at the disposal of the Government for pressing administrative needs. This is unsound. The Germans are determined to continue the construction of the Bagdad Railway, even without assistance from English and French financiers. That is to say that they will oblige the Porte to set aside further revenues for this purpose. The railway is a political scheme as well as a commercial undertaking, and the German Ambassador admits that he intends to proceed alone with the next section. This can be done. But it cannot be denied that it will be a fresh drain on the resources of the country. It is hoped that, by the extension to the sea, the already existing sections will become more remunerative; this is probably correct. The Germans also look forward to a change of régime when the hindrances to the commercial and industrial development of the country will be removed. It is, therefore, argued that the ultimate benefits will outweigh the present sacrifice that the Treasury will have to make.

The existing financial embarrassments of the Porte, however, interfere with the enforcement of necessary reforms. The defective payment of wages and salaries not only contributes largely to defective administration, but produces discontent. The preliminary to the increase of railway communication by means of kilometric guarantees is a sound and productive system of finance, and, if the revenues are to be increased by the good-will of the Powers, as in the case of the new customs duties to be levied on foreign goods, the Porte might, with reason, be asked to accept advice with regard to current expenditure before being allowed to devote further revenues to the construction of railways, which, for the present, cannot be remunerative.

It would be wiser to postpone the construction of railways until the Treasury can make both ends meet.

A curtailment of reckless and unnecessary expenditure should precede the imposition of any fresh burdens on the country.

Financial reform is a preliminary to administrative reform. Under a reformed administration the country would be enabled to meet fresh demands upon it. Without financial reform other reforms are almost out of the question. The example of Macedonia is sufficient to demonstrate that reforms in themselves mean money.

Unless the Porte adopts methods of economy, it is not justified in pledging further revenues either for new loans or for new railways.

I venture to think this should be borne in mind in approaching the question of the further construction of the Bagdad Railway.

Already the State is squandering the means provided to meet current expenditure essential to carrying out the functions of Government.

The mortgaging of fresh revenues will still further divert from its legitimate object the money raised by taxation, and while the taxpayer will continue to suffer from a bad administration, the State must eventually involve itself in financial embarrassments.

No. 1.

The figures in the accompanying Tables (A), (B), and (C) speak for themselves, but a few words of comment may not be out of place.

It may be useful, by way of preface, to recall that at the time of the Decree of Mouharrem the outstanding debt of the Ottoman Empire (including arrears of interest) was £ T. 286,253,000 (excluding loans raised on the Egyptian tribute); it was found necessary to make a large reduction both in the nominal capital of the Debt and the rate of interest payable thereon, and when in 1882 the Council of Administration of the Ottoman Debt was called into existence by the Decree of Mouharrem (6th (20th) December, 1881), the amount of the Debt was reduced to £ T. 125,257,000 in round figures (nominal).

Up to 1886 the gross receipts of the revenues ceded to the bondholders by the the Decree of Mouharrem represented the charges on the Debt, namely, £ T. 2,222,425 to which must be added the annual payment towards the Russian war indemnity of £ T. 350,000 plus expenses.

(See Table (A). The loans raised on the tributes of Egypt and Cyprus are excluded from these calculations.)

These together amounted to £ T. 2,573,800, which I have taken as representing the sum that Turkey then paid as the charges on her foreign debt in 1886.

According to the best available information, the estimated receipts in the official

Budget of the Empire were £ T. 15,257,118 (excluding the Egyptian and Cyprus tributes), and the proportion of the receipts therefore paid by Turkey for the service of her foreign debt in 1886 was 16·86 per cent.

In 1896 the position has changed (Table B): four new loans were raised between 1886 and 1896. The charges have therefore increased to £ T. 3,323,296, plus the £ T. 350,000 and expenses of the Russian war indemnity, making a total charge of £ T. 3,674,673. If I add the kilometric guarantees, plus expenses, paid in 1896 to the railways which had sprung into existence since 1886, namely, £ T. 498,274, the total payments by Turkey in 1896 for her foreign debt, her war indemnity, and her railways amounted to £ T. 4,172,947, and as the estimate of the revenue of the Imperial Budget of that year was £ T. 17,644,000, the proportion required for the service of her Debt and the railways rises to 23·65 per cent.

In 1906 the position is worse. The nominal capital indebtedness amounts to £ T. 87,169,137* (£ T. 114,691,137 if the unpaid balance of the Russian war indemnity is added). In the meantime she has borrowed £ T. 35,345,750 fresh capital, and the gross charges of the foreign debt (not including the war indemnity) have increased from £ T. 2,222,425 in 1886 to £ T. 4,407,581 in 1906.

The total charges are now £ T. 5,567,920, as against £ T. 4,172,947 in 1896 and £ T. 2,573,800 in 1886, including the annual payment of the war indemnity and the kilometric guarantees. (Table (C).)

The estimated revenue of 1906 of the Empire being £ T. 20,529,600 (exclusive of the tributes of Egypt and Cyprus), the proportion of the revenue paid for the service of the foreign debt, the war indemnity, and the railway guarantees rises to 27·12 per cent., as against 23·65 per cent. in 1896 and 16·86 per cent. in 1886.

The following Table will show the situation of the three years:—

Year.	Revenue of Empire.		Amount paid by the Government for Service of the Debt, for War Indemnity, and Railway Guarantees, plus expenses.		Proportion of Charges to total Revenue.	
	Amount.	Increase compared with 1886.	Amount.	Increase compared with 1886.		Increase compared with 1886.
	£ T.	Per cent.	£ T.	Per cent.	Per cent.	Per cent.
1886 ..	15,257,000	..	2,573,800	..	16·86	..
1896 ..	17,644,000	15·64	4,172,947	62·08	23·65	40·27
1906 ..	20,529,000	34·55	5,567,920	116·32	27·12	60·86

The improvement in economic conditions is no doubt great,† but it is a moot question how much further the taxing capacity of the population can be increased, and unless the administration of the finances is radically ameliorated, the country would seem to be incapable of bearing a much greater burden for its foreign debt.

That the country has been permanently benefited by the raising of new loans is very doubtful. On the other hand, the country has undoubtedly profited by the construction of railways, but there is no prospect at present of these railways paying their way without kilometric guarantees. The year 1906 was a most prosperous one in every way, yet the kilometric guarantees (including military transports) only show a decrease of £ T. 3,000 odd on a total of £ T. 747,000 (see Report 2).

I have therefore added these kilometric guarantees to the annual charges. If they are eliminated it will not reduce the proportion of charges to revenue to any appreciable extent.

Since 1906 there is a new loan of £ T. 2,750,000, the charges for which amount to £ T. 123,750, which is not included in my Table.

* But it must be remembered that this is a reduction of nominal capital, and does not represent actual payments made by Turkey to amortize her Debt. By the Decree of Unification, a nominal sum of £ T. 43,179,247 was wiped out by a stroke of the pen. Moreover, although by the action of the sinking fund a nominal amount of £ T. 27,714,141 was paid off between 1881 and 1903 (date of the unification), the actual sum applied to the extinction of this Debt was only £ T. 12,870,000 in round figures.

† Taking the population of the Empire at 30,000,000, the Debt per head of population is to-day £ T. 2·86, or 2l. 12s., and the charge of the Debt per head of population is about 19 piasres, or 3s. 5d., but it must be remembered that large numbers of nomads in Eastern Turkey and in Arabia pay practically no taxes.

In spite of the issue of fresh nominal capital since 1886 to the amount of £T. 35,345,750, or an annual average of £T. 1,767,287, the Budget does not balance. The necessities of administration are annually increasing, and economy is not, as yet, the financial principle adopted at Constantinople. It would seem that to avoid impending danger the Government should as far as possible without prejudice to its safety reduce its expenses. Borrowing in order to meet current expenses cannot be continued indefinitely. The Public Debt of the country is again, as in 1875, assuming considerable proportions. It is time that the attention of all those interested in Turkey's credit and stability should be called to the figures in the accompanying Tables (A), (B), and (C).

It may be argued that I have taken as a basis of my calculation the gross and not the net figures of the charges of the foreign debt and the railway guarantees. My reason for so doing is that, although the Debt Administration is now charged with the collection of the revenues applied for the above purpose, I am not aware that the Ministry of Finance has reduced its expenditure accordingly, and therefore the expenses of collection must be included in the increased cost to the country of the service of the Debt, &c.

I append also a Table (D) giving the details of the gross receipts of the revenues assigned to the service of the new loans and kilometric guarantees in 1906 compared with 1896.

Table (A).—TURKISH External Debt, 1886.

Loans.	Net Charges.	Expenses.	Gross Charges.
	£ T.	£ T.	£ T.
Converted Ottoman Debt ..	1,104,028	372,072	2,222,425
Turkish lottery bonds ..	156,325		
Priority 4 per Cent. ..	590,000		
	1,850,353	372,072	2,222,425
Russian war indemnity ..	350,000	1,375	351,375
	2,200,353	373,447	2,573,800
£ T.			
The estimated revenue of the Budget of the Empire for 1886 was ..	15,257,118		
The charges for foreign debt being ..	2,573,800		
The proportion of charges to revenue is ..	16.86 per cent.		

Table (B).—TURKISH External Debt, 1896.

Loans.	Net Charges.	Expenses *	Total of Gross Charges.
	£ T.	£ T.	£ T.
Converted Ottoman Debt ..	1,551,532	413,075	2,551,432
Turkish lottery bonds ..	156,325		
Priority 4 per Cent. ..	430,500		
Osmannie 4 per Cent. ..	249,975	4,698	254,673
"Tumbeki" 4 per Cent. ..	50,000	250	50,250
4 per Cent., 1894 ..	76,560	383	76,943
Customs 4 per Cent. ..	390,000		390,000
Total ..	2,904,892	418,406	3,323,298
	350,000	1,375	351,375
	3,254,892	419,781	3,674,673
Kilometric guarantees ..	487,992	10,282	498,274
	3,742,884	430,063	4,172,947

* The sums in this column represent the expenses estimated on the totality of the encashments.

£ T.	
The estimated revenue of the Budget of the Empire for 1896 was ..	17,644,000
The charges for foreign debt and kilometric guarantees being ..	4,172,947
The proportion of charges to revenue is ..	23.65 per cent.

Table (C).—TURKISH External Debt, 1906.

Loans.	Net Charges.	Expenses *	Total of Gross Charges.	Capital in Circulation, March 1 (14), 1906.
	£ T.	£ T.	£ T.	£ T.
Unified Converted Debt ..	1,531,902	522,516	2,804,936	32,194,250
Turkish lottery bonds ..	320,018			
Priority 4 per Cent. ..	430,500			
Osmannie 4 per Cent. ..	249,975	18,183	268,158	3,895,100
Customs 4 per Cent. ..	390,000		390,000	8,453,192
Fisheries 4 per Cent. ..	118,800	17,246	136,046	2,598,376
Tumbeki 4 per Cent. ..	50,000	250	50,250	832,260
4 per Cent. 1894 ..	76,560	383	76,943	1,668,324
5 per Cent. 1896 ..	180,000	26,138	206,138	3,093,420
4 per Cent. 1901-1905 ..	238,800	8,372	247,172	5,300,664
Bagdad ..	97,120	6,265	103,385	2,371,000
4 per Cent. 1905 "Tedjizat-Askérié" ..	118,800	5,753	124,553	2,625,000
Total ..	3,802,475	605,106	4,407,581	87,169,137
Russian war indemnity ..	350,000	1,375	351,375	27,522,000 (unpaid balance)
Total of External Debt ..	4,152,475	606,481	4,758,956	114,691,137
Kilometric guarantees ..	722,284	86,700	808,984	
	4,874,759	693,181	5,567,920	

* The amounts in this column represent the expenses estimated on the totality of the encashments.

£ T.	
The estimated of the revenue of the Budget of the Empire for 1906 was ..	20,529,600
The charges for External Debt and kilometric guarantees being ..	5,567,920
The proportion of charges to estimated revenue is ..	27.12 per cent.

Table (D).—Gross Receipts of Revenues assigned to the Service of New Loans and Kilometric Guarantees.

Service.	Gross Receipts.	
	1895-1896.	1905-1906.
	£ l. ps.	£ T. ps.
Haidar-Pasha-Angora ..	168,430 96	266,724 36
Eski-Chehir-Konia ..	32,395 66	117,170 73
Salonica-Monastir ..	156,748 29	175,245 39
Salonica-Constantinople Junction ..	143,661 18	160,823 30
Smyrna-Cas-aba ..	31,676 51	253,388 16
Rayak-Hama ..		136,299 74
Loan with special guarantees ..	158,641 48	202,240 27
Osmannie 4 per Cent. Loan ..	273,171 66	328,197 76
5 per Cent. Loan of 1896 ..		213,445 99
4 per Cent. Loan of 1901-1905 ..		146,823 17
Bagdad 4 per Cent. Loan (1st Series) ..		82,141 55
"Tedjizat-Askérié" 4 per Cent. Loan ..		139,028 66
Total ..	964,725 74	2,221,529 08

No. 2.

The accompanying comparative Table of the gross receipts of the railways for 1905 and 1906, and of the military transport expenses due by the Government for the two years, together with the amount paid in kilometric guarantees, requires little explanation.

The total gross receipts of the railways in 1906 are £ T. 11,999 in excess of those of the previous year. The three sections of the Anatolian Railway show a marked decrease of £ T. 44,340. The kilometric guarantees paid are less by £ T. 38,455, in spite of the increased amount of the guarantee of the three sections of the Anatolian Railway, for which £ T. 26,951 more has been paid last year. This last sum would have been even greater were it not that the kilometric guarantees for the Eski-Chehir-Konia section have reached their limit. It will be remembered that the kilometric guarantee was originally £ T. 604 per kilometre, but, by a later arrangement, the Government cannot be called upon to pay more than £ T. 219.78 per kilometre, and it is this latter sum which has been paid. The Company has to bear the loss between the drop in receipts of £ T. 35,469 and the increase in the kilometric guarantee paid of £ T. 19,201—namely, a loss of £ T. 16,268. The total charges for military transport were £ T. 28,396, as against £ T. 26,730.

Last year the Government paid the military transport expenses from a special grant of £ T. 30,000 on the surplus of the tithes; this year, with the exception of those incurred by the Oriental Railway Company, which still has a fixed sum of £ T. 10,000 allotted for the purpose, the other Railway Companies are paid from the tithes assigned for the kilometric guarantees, and include them in their accounts. In my Table I have separated them. The total charges, therefore, on the tithes assigned for kilometric guarantees were the kilometric guarantees paid and the military transport expenses, which, for the Salonica-Monastir, Salonica-Constantinople Junction, and the Smyrna-Cassaba Railways, have fallen by £ T. 6,247, £ T. 5,156, and £ T. 3,288—namely, a total reduction of £ T. 14,692.

On the other hand, the Oriental Railway Company required last year for military transport £ T. 21,103 as against £ T. 4,745 in the preceding year—namely, an increase of £ T. 16,357. Of this, £ T. 10,000 has been paid by a special grant from the tithes surplus and £ T. 3,269 from a balance from last year of a credit of £ T. 30,000 for the same purpose. As the balance of £ T. 7,834 has got to be paid by the Government, and as it is more than probable that it will come out of the surplus tithes, I have included it in my Table.

Thus we have minus £ T. 53,143 paid for kilometric guarantees and military transport together, and plus £ T. 16,357 for military transport, or a decrease of £ T. 36,791 on both items together.

It must also be remembered that, according to the decision taken by the Council of the Debt in September last, any deficiency in the revenues assigned for the Bagdad Construction Loan is also made good from the surplus tithes. Last year the deficiency was £ T. 35,000, and has been paid out of the surplus tithes. As it thus affects the surplus tithes remaining in our hands, I have therefore taken it into consideration in my Table.

When the military transport expenses of the Oriental Railway Company are paid in full, the surplus tithes remaining in our hands will be only £ T. 1,790 more than last year.

I also annex a Table showing the sums paid by the Government for kilometric guarantees since 1889 onwards.

TABLE (A).

			Railway Company.—Gross Receipts.		Difference in 1322 (1906).
			1321 (1905).	1322 (1906).	
			£ T. p.s.	£ T. p.s.	£ T. p.s.
Haider-Pasha-Angora .. ..	..	..	314,433 41.46	308,744 62.30	— 5,688 79.16
Eski-Chehir-Konia .. ..	..	..	156,006 38.32	120,536 82.37	— 35,469 55.95
Konia-Eregli (Bagdad) .. ..	..	..	14,227 88.25	12,045 69.45	— 2,182 18.80
Salonica-Monastir .. ..	..	..	90,995 23.15	112,599 46.23	+ 21,604 23.08
Salonica-Constantinople Junction ..	..	..	94,725 1.76	107,464 37.74	+ 12,739 35.98
Smyrna-Cassaba .. ..	..	..	190,902 84.73*	186,534 26.57	— 4,368 58.16
Rayak-Hama .. ..	..	..	57,350 84.24†	62,282 44.34	+ 4,931 60.10
			40,563 24.79	60,995 37.70	+ 20,433 12.91
Total .. ..	..	..	959,204 86.70	971,204 6.70	+ 11,999 20.00
Oriental Railway Company .. ..	..	..	..	..	..
Bagdad Construction loan .. ..	..	..	..	..	..
Total .. ..	..	..	959,204 86.70	971,204 6.70	+ 11,999 20.00

* Smyrna-Alaschehir and branch lines.

† Alaschehir-Afion-Karahissar.

‡ Sum paid on account of deficit up till March 1, 1907.

TABLE (B).

			Kilometric Guarantees and Service of Bagdad Construction Loan.		Difference in 1322 (1906).
			1321 (1905).	1322 (1906).	
			£ T. p.s.	£ T. p.s.	£ T. p.s.
Haider-Pasha-Angora .. ..	..	..	45,720 74.36	51,280 42.34	+ 5,559 67.98
Eski-Chehir-Konia .. ..	..	..	112,543 33.98	131,744 51.52	+ 19,201 17.54
Konia-Eregli (Bagdad) .. ..	..	..	25,266 95.82	27,457 24.12	+ 2,190 28.30
Salonica-Monastir .. ..	..	..	45,938 41.38	19,171 29.63	— 26,767 11.75
Salonica-Constantinople Junction ..	..	..	262,707 12.15	237,455 59.80	— 20,251 52.35
Smyrna-Cassaba .. ..	..	..	156,751 0.22	153,979 68.28	— 2,771 31.94
Rayak-Hama .. ..	..	..	83,336 79.73	62,719 64.51	— 20,617 15.22
Total .. ..	..	..	722,264 37.64	683,808 40.20	— 38,455 97.44
Oriental Railway Company .. ..	..	..	..	..	..
Bagdad Construction loan .. ..	..	..	..	35,000 0.00	+ 35,000 0.00
Total .. ..	..	..	722,264 37.64	718,808 40.20	— 3,455 97.44

TABLE (C).

	Military Transport.		Difference in 1322 (1906.)
	1321 (1905.)	1322 (1906.)	
	£ T. pra.	£ T. pra.	£ T. pra.
Haider-Pasha-Angora .. .. .	.. .. .	.. .. .	.. .. .
Eski-Chehir-Konia .. .. .	.. .. .	.. .. .	.. .. .
Konia-Eregli (Bagdad) .. .. .	.. .. .	.. .. .	.. .. .
Salonica-Monastir	11,176 3.50	4,928 11.00	- 6,247 22.50
Salonica-Constantinople Junction	7,521 54.00	2,365 15.50	- 5,156 38.50
Smyrna-Cassaba	3,288 0.00	.. .. .	- 3,288 0.00
Rayak-Hama .. .. .	.. .. .	.. .. .	.. .. .
Total	21,985 57.50	7,293 26.50	- 14,692 31.00
Oriental Railway Company	4,745 24.00	21,103 4.50*	+ 16,357 80.50
Bagdad Construction loan .. .. .	.. .. .	.. .. .	.. .. .
Total	26,730 81.50	28,396 31.00	+ 1,665 49.50

* Amount of military transports of the Oriental Railway Company in 1322 was £ T. 81,103 4.50 pra., of which £ T. 3,269 18.50 pra. was paid from balance of credit of £ T. 30,000 in 1321.

TABLES (B) AND (C).

	Totals.		Difference in 1322 (1906.)
	1321 (1905.)	1322 (1906.)	
	£ T. pra.	£ T. pra.	£ T. pra.
Haider-Pasha-Angora	45,720 74.86	51,280 42.34	+ 5,559 67.98
Eski-Chehir-Konia	112,543 33.98	131,744 51.52	+ 19,201 17.54
Konia-Eregli (Bagdad)	25,266 95.82	27,457 24.12	+ 2,190 28.30
Salonica-Monastir	57,114 44.88	24,099 40.63	- 33,015 4.25
Salonica-Constantinople Junction	260,228 66.15	239,820 75.30	- 20,407 90.85
Smyrna-Cassaba	160,039 0.22	153,979 68.28	- 6,059 31.94
Rayak-Hama	83,336 79.73	62,719 64.51	- 20,617 15.22
Total	744,249 95.14	691,101 66.70	- 53,148 28.44
Oriental Railway Company	4,745 24.00	21,103 4.50	+ 16,357 80.50
Bagdad Construction loan .. .. .	.. .. .	35,000 0.00	+ 35,000 0.00
Total	748,995 19.14	747,204 71.20	- 1,790 43.94

Sums Paid by the Government for Kilometric Guarantees.

Year.	Haider-Pasha-Angora.	Eski-Chehir-Konia.	Salonica-Monastir.	Salonica-Constantinople Junction.	Smyrna-Cassaba.	Damascus-Hama and prolongation.	Konia-Eregli (Bagdad).	Total of Guarantees paid.
1889-1890	£ T. pra. 7,981 89	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	£ T. pra. 7,981 89
1890-1891	33,190 61	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	33,190 61
1891-1892	69,231 15	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	69,231 15
1892-1893	130,203 99	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	130,203 99
1893-1894	181,427 25	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	181,427 25
1894-1895	219,034 37	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	219,034 37
1895-1896	203,601 87	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	203,601 87
1896-1897	177,540 56	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	177,540 56
1897-1898	17,530 02	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	17,530 02
1898-1899	67,338 67	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	67,338 67
1899-1900	179,401 92	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	179,401 92
1900-1901	119,756 71	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	119,756 71
1901-1902	31,563 92	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	31,563 92
1902-1903	4,651 09	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	4,651 09
1903-1904	92,878 37	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	92,878 37
1904-1905	93,589 04	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	93,589 04
1905-1906	45,120 74	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	45,120 74
1906-1907	51,280 42	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	.. .. .	51,280 42
Total	1,725,438 59	1,369,765 68	762,512 79	2,931,234 49	1,672,266 97	534,864 83	57,008 02	9,073,121 37

Mr. Block to Foreign Office.—(Received February 26.)

My dear Hardinge,

Constantinople, February 22, 1907.

FROM my Memorandum on the Turkish financial situation, in which I showed the unwisdom from a purely financial point of view of pledging further revenues for kilometric guarantees and unproductive loans without at the same time endeavouring to reorganize the disordered state of the finances and to promote the industrial and commercial development of the country, it might appear that I was opposed to the extension of the railway or to the participation of England in the enterprise.

This is not the case. The Germans intend to go on to the sea, if not to link up with the Hedjaz Railway, and the Sultan will consent to pledge further revenues for that purpose. There is also a persistent rumour at this moment that an Anglo-Franco-German group has been formed for that purpose. Nothing that we can do will under present circumstances prevent them from even going on alone. From a political point of view, therefore, I entirely share the opinion that England ought not to allow the opportunity to pass of participating.

When the railway has been constructed over the Taurus to the sea the terms of the Germans will become harder.

Secondly, it is not to the kilometric guarantees that I am opposed so much as to the pledging of revenues for unproductive loans. The kilometric guarantees are comparatively small, and, with some exceptions, the railways built with their assistance have largely compensated for the sacrifice the Treasury has made. I can conscientiously state the German line is doing good to the country through which it passes; the tithes have increased, and there is distinct progress and increase of wealth and prosperity. The Germans are for ever trying to encourage agriculture and commerce, by facilitating the purchase of machinery, &c., and in other ways. The improvement in the economic state of the country would be greater still were it not for the obstacles placed in the way of all commercial and industrial development by the Turkish Government.

I also agree with the Germans that by the extension of the line to the sea the railway will pay better and a certain portion of the kilometric guarantees will be liberated; indeed, I believe that this is the only way under existing conditions to increase the receipts, as it would appear that the railway has now already extended beyond the zone of the Constantinople market, whether for imports or exports.

I am therefore in favour of extension, but it is only right that at the same time I should point out the danger of indefinitely mortgaging the revenues of the country.

It is rather the mortgaging of revenues for unproductive loans to which I take exception. There are cases where loans have been raised merely to enable the purveyors of arms, ships, and war material to sell their goods to the Turkish Government at exorbitant prices—the material becomes obsolete and the ships rot in the Golden Horn; or the object in view has been the profit of the loan contractors. I am sorry to have to say that this policy of spoliation, as I will venture to describe it, is more the policy of the French financiers than the Germans, and the Ottoman Bank is, I consider, much to blame for contributing to this pernicious system. Both M. Deffes and M. Nias have admitted that the continuance of such imprudence must eventually embarrass the Treasury. Is not this policy dangerously similar to that followed by the French in Egypt in the time of Ismail Pasha? The two loans of the Germans and French in 1905 (the 17th April and 8th May respectively) are flagrant examples. The latter was the worst of the two. These loans were forced upon the Turks in order that they should buy arms and ships. The Turks (with the exception of those who were bought) did not want to contract these loans. M. Constans more especially is to blame. Those who are interested in the stability of this country should have courageously discouraged the Turkish Government from engaging in these operations, and I am sorry to say that it was supposed at the Porte that we supported him. I therefore considered myself in duty bound to point out to my Council in London that to continue indefinitely to mortgage revenue must in the end lead to disaster. I have stated so publicly in my Annual Reports, and I still adhere to the same view, which is shared by Vincent, Caillard, and Babington Smith.

It is quite clear that England would never be a party to a policy of spoliation,

and the solution of the difficulty seems to me to lie in finding some means to insure that whilst pledging fresh revenue for railway construction the country may be at the same time enabled so to develop its resources that it will not feel the fresh charges, or rather that with the imposition of fresh obligations there should be a corresponding improvement in the economic and financial situation more than sufficient to compensate for the sacrifice.

It might be urged that new sources of revenue have been created, and that by employing the surplus of the ceded revenues for the service of a new construction loan no new burden is imposed on the country. This is true. The Government, since the unification of 1903, has at its disposal a fresh source of revenue in the surplus of the ceded revenues.

Again, the 3 per cent. is also a new source of revenue, and when, as is expected, the 8 per cent., and with it the 3 per cent. of the customs duties, with the supervision of the Debt Administration, produce more than they would produce to-day, this increase may also be considered as fresh revenue. The 75 per cent. of the proceeds of the 3 per cent. is at present to be devoted to Macedonia, but it is hoped that in time and with our supervision the increased duty will produce more than is required for Macedonia; 75 per cent. of this would go back to the Turks, but, even without that, the additional duty of 3 per cent. will certainly relieve the Turkish Government from finding money for Macedonia, either by borrowing or from the revenues.

We may admit, therefore, that new sources of revenue have been found.

Nevertheless, with a continuation of the extravagance of to-day, the chronic deficit in the Budget will continue, and every penny taken for railways will diminish the amount of revenue so urgently required for the needs of the Administration.

The situation may not be rendered worse, but, by devoting the fresh revenue to kilometric guarantees, any improvement in the situation is checked.

If the four Powers, or only France, Germany, and England, are to father the Bagdad Railway, it is only just to the country that measures should be taken to enable the country to bear the new charges and to pay its way. If you are putting money into a business, you naturally desire to insure that the business is a sound one. It is evident also that Germany and France would be only too glad to join in any action which would increase the financial stability of the country. Both these Powers are much more largely interested than we are, and would view with satisfaction any measures which would secure their interests and those of their financiers and investors. Indeed, we believe that one of the reasons why Germany desires our co-operation is because she is anxious for some one to share the financial responsibility. I know that the Ottoman Bank, which may be taken as representing the French financiers, is not quite comfortable about the future. France has more financial interests here than any other Power, and would, I imagine, be grateful for any co-operation which would result in giving greater stability to the financial situation.

It might be said that my Memorandum was too vague, and that I have not suggested any constructive policy. I will endeavour, therefore, in a few words to put down on paper certain things which I consider feasible and likely to obtain the approval and support of all the Powers interested. I do so hesitatingly, and I wish to preface my suggestions with the expression of my conviction that under the present Sultan economy and all radical change for the better are out of the question. All talk of financial advisers and control is waste of time. The appointment of English or other financial advisers would only mean a new set of highly-salaried officials, who would be deprived of all initiative and power. Whatever is to be done must be done by "étapes." I know how difficult it is to exercise continuous concerted pressure, but, if once the Powers have agreed upon a policy and the Ambassadors keep that policy always before them, the desired result will be attained by degrees. It is difficult to prescribe the remedies at the start—it is only by experience that it is possible to know exactly what can be done; but, when once the ball is set rolling, remedies will suggest themselves. For the moment, I venture to suggest:—

1. The discouragement of useless expenditure and of borrowing to meet it. Certain financiers and others may not like this, but it is an essential point, and I cannot admit that the French Government would not discourage such undesirable transactions.

2. Removal of obstruction of all kinds to trade and commerce. This must include a modification of the present oppressive police measures, which so interfere with individual liberty and circulation between the provinces and the capital that

business becomes almost impossible, trade languishes, the country remains undeveloped, and the railway receipts suffer in consequence.

Permission to build light railways or tramways to link up the interior with the main railway lines should be insisted upon.

3. The Powers could demand that a certain proportion of the revenues in the provinces should be devoted to the construction and maintenance of roads, bridges, irrigation, and other works of public utility.

The cost of transport to-day is so heavy that the peasant finds it does not pay to cultivate the land; the produce will not bear the cost of cartage and horse plus the railway charges.

4. The reorganization of the Ministry of Mines and Forests. Forestry is entirely neglected. Mining enterprise, in spite of any regulations, is hampered by the exorbitant demands of corrupt officials. The mineral resources of the country are considerable, but with the present system the mines will for the most part remain unworked. Combined action on the part of the Powers should be exercised to end these abuses, and to facilitate the granting of Mining Concessions.

5. The regular payment of officials is the first condition of good government. To make a radical reform in this respect is to-day out of the question; but, as a beginning, the money remaining in the hands of the Debt Administration might be devoted to this purpose before the payment of any surpluses to the Government, and as the customs revenue increases, and more is produced from the 3 per cent. than is required for Macedonia, the balance might be reserved for the payment of the Customs officials. This could be done gradually when it is seen what the customs will provide under the supervision of the Debt Administration.

6. The gradual extension of the control of the Debt Administration in the Customs Administration. Experience only will show what can be done in this direction without encountering opposition on the part of the Sultan.

7. The collection of tithes by the Debt Administration gives good results to the Treasury. But the action of the Debt Council is indirect, and I do not at present consider that under existing conditions the collection of all the tithes by the Debt Administration, as sometimes suggested, even by the Turks, is advisable. The question should be carefully studied, and if the measure is approved by all parties, including the Syndicates of foreign bondholders, it should be put into execution only by degrees, as circumstances may necessitate. In certain districts I should be opposed to the measure.

8. Most important—a revision of the kilometric guarantees.

It has been said that two systems have been followed in Turkey: (1) Assignment of revenues for kilometric guarantees in order to build railways, and (2) construction of railways in order to obtain kilometric guarantees. I am sorry to say the latter is the system more generally adopted. It is the case with certain French railways in this country more especially, but it is also the case with the Konia-Eregli section, and if the original Concession of the Bagdad line is adhered to, I am afraid that the system will be perpetuated.

The kilometric guarantee system can only be defended (if at all) when the guarantees are in proportion to the cost. This is not the case with the Konia-Eregli section. Revenue was assigned to meet the service of a loan of 54,000,000 fr., and we know that perhaps only 30,000,000 fr. were expended on the construction of the line. The country has therefore been obliged to pledge more revenue than required. It is said that the sum saved in the construction of this section will be expended on the next. But how about further sections? The remedy would appear to be to rearrange the kilometric guarantees. For construction loans the Government should only pay the interest and amortization of the cost of construction plus the legitimate profits to the constructor; and, with regard to working expenses, the accounts of the Railway Companies should be carefully examined, and as the traffic develops the guarantees should be diminished. This might be done at fixed periods, and if the Powers undertake the extension of railway communication, then the whole system of guarantees in the Empire should be made subject to revision. The subject would have to be thoroughly gone into by a specialist. I believe that if an honest English Company had the building and working of any section there would be an immense saving to the country, and if we have a section of our own we might set an example to the others.

These are, then, my suggestions. They may be crude, but I believe they will meet with your approval.

With the present régime no real reform is possible, and any serious reduction of administrative expenditure is out of the question.

We should therefore try to discourage reckless borrowing, and to increase revenue by removing obstruction to trade and commerce. You are trying to do this in the Custom-house, although, without some European driving-power, I doubt the permanent efficacy of the reforms. But it is a step in the right direction. It would be advisable to continue the policy in other directions. I do not see why you should not succeed, and if, at the same time, you make the kilometric guarantees proportionate to the cost of the construction and working of the railways, these should become a real benefit to the country. It is only by the increased prosperity of the population that the railways will prove eventually remunerative.

Yours ever,
(Signed) ADAM BLOCK.

P.S.—I think it would be fair to add to my foot-note in the Memorandum concerning the charge of debt per head of population that the charge includes the gradual amortization of the Debt.

A. B.

[6477

No. 20.

Lieutenant-Colonel Picot to Foreign Office.—(Received February 26.)

Dear Sir Charles,

Pera, February 23, 1907.

AN English friend of mine here was dining with M. Huguenin, the Director-in-chief of the Bagdad and Anatolian Railways, and was told by him that a meeting was about to be held between German, French, and English financiers to settle some question of the financing of the Bagdad Railway. I take it this has to do with the second section, which apparently is to be taken in hand this spring. This information would appear to have some connection with the sudden departure from Constantinople of certain Germans who are supposed to be dealing with this matter of finance.

M. Huguenin also stated that our preponderance of interest on the Bagdad sections was to be recognized, though nothing was to be said officially for the present.

The business of the third steamer appears to be nearing settlement. Sir Nicholas mentioned to me that he hoped to hear something decisive by Sunday next. I sincerely hope he may do so, as delay may give rise to intrigue on the part of the Civil List, and further delay would be created.

Thank you so much for your kind message, which Parker gave me. We are greatly in your debt for the way you have pushed this matter through.

Long before the Ambassador returned the rumour went abroad that our policy was to be much stiffened in Turkey, and that he was to play a much stronger hand.

This has strengthened him greatly.

Yours sincerely,
(Signed) H. PICOT.

[7332]

No. 21.

Sir Edward Grey to Sir F. Bertie.

(No. 120.)

Sir,

Foreign Office, March 4, 1907.

M. CAMBON told me to-day that M. Auboyneau had been asked to go to Berlin to consult about the Bagdad Railway.

There he had met M. Zander, who had proposed to him that the French group should participate in the Bagdad Railway by linking up the Syrian lines with it. The Germans were prepared to make the next section themselves, and the idea was that the Syrian Railway should be extended to meet the extension of the Bagdad Railway, and that the whole should then form one business.

M. Auboyneau had replied that the French group could not participate unless an English group also joined in. M. Zander had said there would be considerable difficulty with public opinion in Germany about accepting the co-operation of an

English group. In fact, if an English group was admitted, Germany would find herself in a minority, being in the position of 1 to 2.

M. Auboyneau had suggested that the balance might be redressed by bringing in a fourth group. But M. Zander had replied that this might make matters still worse. Unless Germany was quite sure of the fourth group, she might find herself in the position of 1 to 3.

On M. Auboyneau's return to Paris, M. Zander had followed him there: a fact which appeared to M. Cambon to show that the Germans could not find the necessary money themselves, and were very anxious for French participation. He desired to know my opinion.

I said that Count Metternich had not mentioned the Bagdad Railway to me, but that in talking to others whom he met, and amongst them quite recently the Prime Minister, he had quoted our opposition to the Bagdad Railway as an instance of British hostility to Germany. As soon as Count Metternich returned, I proposed to tell him that I had heard of this, and to say to him that, naturally, we could not look favourably upon the creation of what might be an alternative through route to the East in the control of which we had no share. I would also tell him that, if Germany felt our opposition to the Bagdad Railway to be a political difficulty, it was for her to make proposals with regard to it, as our opposition was not irreconcilable.

I also told M. Cambon that, though the Bagdad Railway form no part of our negotiations with Russia about Persia, yet it had appeared incidentally in the course of these negotiations, which had lately been making progress, that Russia had ceased to regard the Bagdad Railway as something to be opposed at all costs, and was willing to come to an arrangement with Germany about it. Indeed, she felt that no settlement with regard to Persia would be complete from her point of view unless she had some such arrangement.

M. Cambon said he would report to his Government that, in his opinion, the steps taken by M. Zander clearly showed a desire for co-operation, and that in the meantime the proper attitude was one of expectation and waiting. He would also report what Count Metternich's attitude had been, and what my intention was as to speaking to him.

I am, &c.
(Signed) E. GREY.

[8080]

No. 22.

Sir Edward Grey to Sir A. Nicolson.

(No. 101.)

Sir,

Foreign Office, March 7, 1907.

COUNT BENCKENDORFF came to see me to-day on his return from Russia.

He was very pleased with the progress which had been made with our negotiations at St. Petersburg, and I said I was sure his own visit to St. Petersburg had been a most useful one. I felt that his influence in the negotiations had been beneficial.

I then told him that we were sending our reply to the Russian proposal with regard to Persia. I observed that the sphere which they claimed was a very large one, and that it included Tehran. This was a matter of very great importance, as the fact that Tehran was in the Russian sphere was bound to increase Russian prestige there. And yet it was at Tehran, the seat of the Central Government, that any influence we might require would have to be exercised, even in connection with concessions or other matters relating to our own sphere only.

Count Benckendorff admitted the point, and said that, owing to the situation of Tehran, he did not see how it could be otherwise than in the Russian sphere.

I said that, of course, I saw the difficulty. But none the less, it was a consideration to be borne in mind. This was not, however, the vital point to which I wished to refer.

I then explained that, in consequence of our obligations to Afghanistan with regard to frontier matters, and to Persia under our Treaty of 1857 with regard to the Perso-Afghan frontier, it was impossible, without great complications, to place a piece of the Perso-Afghan frontier within the Russian sphere. To do so would also complicate arrangements for direct communication with Afghan officials on local frontier matters. It might be that Customs officials, or doctors, or persons of that kind, would have to be placed by the Russians in their own sphere; and if such persons appeared on the Perso-Afghan frontier, our difficulties would be greatly increased.

Therefore, it was vital that the Russian line should start, not from Kuhsan, but from Zulficar, and so avoid bringing any part of the Perso-Afghan frontier into the Russian sphere.

Count Benckendorff did not seem to anticipate that there would be difficulty about this, and appeared relieved that this should be the main point to which I attached capital importance.

I also explained what we should have to propose with regard to Customs officials in our sphere if Russia had to foreclose the security for her loans. With regard to the Meshed-Seistan telegraph-line, I agreed that the transfer might be dealt with in a separate note, provided it was done simultaneously with the main Agreement.

Count Benckendorff saw no difficulty on either of these points.

He said M. Isvolsky thought it might be necessary to take measures on the northern frontier of Persia to prevent revolutionaries crossing from the Caucasus; but he was determined to keep us informed of anything that was done, and to act in concert with us. Count Benckendorff spoke most warmly of the co-operation between us which had existed lately, and of the advantage of continuing it.

I cordially agreed, and observed that co-operation had only been arranged just in time, for had it not been arranged before the recent disturbances in Persia began there would have been trouble. At one time we might have increased our prestige enormously by becoming the champions of the popular party, and great self-restraint had been necessary on our part to prevent this being thrust upon us. As to interference now, I understood that the Shah might desire foreign help against his own people, but such intervention from outside would be dangerous. To this Count Benckendorff entirely assented.

This part of our conversation ended without the expectation on either side that there would be any difficulty in coming to a settlement on the Persian question.

Count Benckendorff then referred to Afghanistan.

I explained the impossibility of our making any proposals about frontier officials and local communications till we had sounded the Ameer, who would naturally be very suspicious.

Count Benckendorff referred to the Russian apprehension of any change in the status of Afghanistan. The Russians were afraid that an Afghan army, commanded and trained by British officers, would be a danger. They were, therefore, very anxious that we should undertake some engagement on the subject.

I told him that I could without reserve assure him that we had no intention or desire of penetrating into Afghanistan, or changing its present status. We did not intend to send British officers into Afghanistan, nor had the Ameer asked for any. During his visit to India we had made no political proposals to him, and he had made none to us. The object of the visit, so far as we were concerned, was to prove to the Ameer that we were very good friends to him, but friends who asked nothing from him, and that he had not been asked to India in order that we might make demands upon him.

But I foresaw that it would be very difficult for us to undertake any engagements about Afghanistan. There were very turbulent tribes on our own frontiers, such as the Afridis and Waziris. There would probably be no trouble under the present Ameer, but it was always possible that some Ameer less wise might stir up the frontier tribes within our own borders, and assume an aggressive attitude which would require measures on our part.

Count Benckendorff admitted the force of this, and said perhaps some form of words might be devised by which we should engage not to do anything unless the Ameer took action which rendered measures necessary on our part. But the suggestion was very vague, and I did not think it desirable to pursue the point any further.

Count Benckendorff admitted that the Ameer could not be prevented from taking measures of his own to develop his country. He was aware of our general ideas about Afghanistan on other matters, and seemed sanguine of an agreement.

We then spoke of the Bagdad Railway.

I explained that Count Metternich had complained to others, though not to me, that our attitude towards the railway was an obstacle to good relations. I therefore intended to say to him that I thought it was not fair to make a grievance of our opposition to the Bagdad Railway, while Germany refrained from making any proposals to us with regard to it.

Count Benckendorff asked me whether we would initiate any proposal, and I said, "No." I meant to confine my statement to the point that, if Germany felt the Bagdad Railway to be a political difficulty, it was for her to make a proposal.

[1715]

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Count Benckendorff said that M. Isvolsky's attitude was that he would prefer that the railway should not be made. But if it was to be made, the situation must be accepted, and the best terms must be made.

I told him I thought the railway would be made in the long run. If it became a through route from sea to sea, it was obvious that all the Powers—Russia, France, and ourselves, as well as Germany—would be affected by it, and would be concerned in it. If, therefore, Germany made any proposal, I would say that I thought it should include an arrangement with Russia. But I assumed that the German Government were already aware of M. Isvolsky's views.

Count Benckendorff further said that he hoped we would co-operate in the Balkans. The Russian Government had, after some difficulty, accepted the principle that judicial reform should be worked out through the Financial Commission.

I said we had but one end in view, and that was to promote a better state of things in Macedonia. The situation was becoming difficult here, because the Balkan Committee, who were not Chauvinists, but quite the contrary, were pointing out that things in Macedonia were getting no better. I was afraid this was true. We ought, therefore, to work together this year, and try to make things better than last year.

I also said that, to be quite frank, it was our impression that the Civil Agents of Russia and Austria had not, last year, used their influence as they might in improving matters.

Count Benckendorff seemed to be fully aware of this opinion, and he did not demur to it.

I told him that, as soon as the Customs question was settled, I hoped effective reforms would be proposed. We would be very glad to support them.

In the course of this conversation Count Benckendorff emphasized M. Isvolsky's desire to extend the scope of an agreement with Japan so as to produce something, which might perhaps not amount to an *entente*, but would at any rate produce "des relations" between Russia and Japan. He hoped we should favour this.

I said we certainly should favour a general good understanding. We could not suggest to Japan that she should make concessions on points connected with the Portsmouth Treaty, but we wished to promote good relations between Russia and Japan. The direct object of a settlement between Russia and ourselves was to secure the Indian frontier. But there was also an indirect object—viz., to be on good terms with Russia; and this indirect object would be lost unless relations between Japan and Russia were satisfactory. We wished, therefore, to see this secured.

I am, &c.
(Signed) E. GREY.

[8119]

No. 23.

Sir Edward Grey to Sir F. Lascelles.

(No. 77.)

Sir,

Foreign Office, March 8, 1907.

I REMINDED Count Metternich to-day that, in conversation quite recently with the Prime Minister, and I heard with others also, he had expressed himself not altogether satisfied with the relations between England and Germany, and had instanced the Bagdad Railway and our attitude towards it as a cause.

I thought it was not fair to go on quoting the Bagdad Railway when it was a subject on which we had not received any proposals from Germany.

Count Metternich said he did not suppose Germany would make any proposals. He could not understand why we objected to commercial enterprise on Germany's part in Asia Minor, one of the few places still left open. He had been informed by the late Government that England had no interest in the Bagdad Railway except to see that no fortified port was made on the Persian Gulf. A proposal for co-operation had afterwards been dropped, though Mr. Balfour had been strongly in favour of it. Count Metternich thought the apprehensions expressed in the House of Commons and in the press with regard to the Bagdad Railway were simply due to the suspicion and distrust of Germany.

I observed that, if the railway became an alternative route to the Far East, going from sea to sea, it could not be a purely commercial enterprise. It must have political consequences, which would affect more or less every Power interested in the region.

Count Metternich was unable to see that it could have any political aspect or strategic importance, so far as we were concerned.

I maintained the opinion that the change made by so great an enterprise must be a matter of interest to neighbouring Powers.

Count Metternich finally said that he doubted whether this would be a good time for Germany to propose anything. She had now made further progress with the railway. He did not think any proposal which it would be seemly for her to make with the strong position she now had in the matter would meet the views expressed over here, and she could never consent, after having made so much progress with the enterprise by herself, to be deprived of any part of it.

I said I was not aware that, in any quarter, deprivation had been suggested. Participation was not the same thing as deprivation.

Count Metternich went on to say that he saw our negotiations with Russia were progressing favourably.

I told him it was true they had been more active just lately; but they were concerned with the Indian frontier, and the scope of them could not be said to affect German interests in any way. I hoped, therefore, he would understand that they were not in any way directed against Germany.

He said that, much more important than the question of The Hague Conference or anything else with regard to relations between England and Germany, was the Anglo-French *entente*, and the question of whether it would be developed in a sense adverse to Germany.

I replied that, in this, everything depended on whether the action of Germany was such as to put England and France on the defensive.

I am, &c.
(Signed) EDWARD GREY.

[8638]

No. 24.

Sir F. Lascelles to Sir Edward Grey.—(Received March 18.)

(No. 103. Confidential.)

Sir,

Berlin, March 16, 1907.

WITH reference to your despatch No. 36 of the 4th ultimo, I have the honour to transmit herewith a despatch which I have received this morning from Mr. Consul-General Oppenheimer, giving me his views on the subject of the Bagdad Railway scheme so far as it is affected by the financial situation in Germany.

I have, &c.
(For Sir Frank Lascelles),
(Signed) GRANVILLE.

Inclosure in No. 24.

Consul-General Oppenheimer to Sir F. Lascelles.

(Confidential.)

Sir,

Frankfort-on-the-Main, March 12, 1907.

I BEG to acknowledge the receipt of your Excellency's despatch dated the 9th February, inclosing copy of a report from His Majesty's Minister Resident at Munich, respecting the Bagdad Railway scheme so far as it is affected by the financial situation in Germany, and requesting me to furnish you with my views on the subject, His Majesty's Government being anxious to receive full and accurate information. In reply I beg to state as follows:—

There is no doubt that since M. Dernburg has taken charge of the Colonial Department in Berlin a new interest has been awakened in transmarine matters. If the diffidence in German colonial undertakings cannot be expected to vanish outright, German financial schemes overseas, whether in German territory or not, must in the long run benefit from the appointment. To the German mind, which is accustomed to paternal government, the crux lies not so much in the question whether the capital is invested under the German flag or not, but whether the enterprise in which it is invested has the support of the Government. This being secured, there might indeed be a preference in the case of overseas expansion for territories in which there is not the danger of a constant contact with the inferior grades of German officials ("Assessoren-Wirtschaft"). Since M. Dernburg's appointment the support of the Government has

in all commercial questions become all the more valuable, as he is a commercial and financial expert of the very first class, and, while he is sure to take a broad view of commercial schemes, it is hoped that his views will carry considerable weight also with his colleagues. M. Dernburg's very appointment, then, has inspired confidence; though he may have been none too popular as a bank Director, he is certainly as the Head of the Colonial Department not unpopular with the commercial majority of the country, and more especially with his own fraternity of the "haute finance." His appointment constituted such an innovation in the traditional agrarian and junker régime of Germany that the commercial world, led by the "haute finance," seems *ab initio* inclined, from feelings akin to those of freemasonry, to assist him in making his appointment a success. During his agitatorial campaign preceding the last general election he met everywhere with a warm reception, which was nowhere warmer than in Frankfort, where he delivered an excellent, and perhaps his most sober, speech, because no doubt he knew that his audience was greatly composed of former colleagues, of men who are shrewd leaders in the world of finance. I think that a real effort would, if necessary, be made by them to save him the humiliation of failure, because his appointment constitutes a new departure decidedly to the credit of their calling, which, until then, had not been favoured by any great official distinction; if the appointment proved unsuccessful the departure will stand discredited and is not likely to be repeated for many years to come.

Probably there is also a silent conviction that if the "haute finance" stands by M. Dernburg he will use his influence behind the scenes to bring about a satisfactory reform of the bourse laws, for so far no one has been appointed to so prominent a position in Germany with an equally thorough knowledge of the defects of the present legislation under which, until quite recently, M. Dernburg had, as bank Director, himself to suffer. The financial world looks to him with all the greater confidence in this respect because he is known to be regardless and tenacious, and the right man to see a matter through; even his colleagues at the head of the Empire cannot deny that he is an authority upon the subject of finance. It is therefore not at all unlikely that if any financial question became a serious item in M. Dernburg's colonial scheme the support of the "haute finance" could be secured, because M. Dernburg would have a *quid pro quo* to offer, and the money would probably be found as a part of a secret understanding.

For the same reason any Government which is well advised would put M. Dernburg forward in case it wished to secure the help of the "haute finance" for any other transmaritime enterprise, *e.g.*, the Bagdad Railway scheme. Here, again, the same basis for a bargain exists—possibly with a slight disadvantage to the official side, because the usual argument of patriotism could not be used. On the other hand, there is no doubt that in the eyes of many Germans a part of Turkey, namely, Asia Minor, is considered more thoroughly German than some of the German Colonies. The so-called "Levante-Tariff" has worked wonders in the German commercial conquest of Asia Minor. I have it from British merchants that Englishmen abandoned these markets because there was no longer any cash in them, but only "paper," and that the profits were rendered illusory by the long period over which their realization was protracted. If Germany to-day controls these markets and is shipping great quantities of all sorts of merchandize to the Levant it may suit her own industrial purposes; for, especially in times of commercial depression, as, *e.g.*, 1901 and 1902, these markets enable her to keep her greatly increased commercial concerns working. The system of prolonged credit is one of the concessions made by Germans wherewith to conquer new markets, but they seem to forget that it is difficult to change the system once the markets have been secured on this basis, and such commercial transactions are not apt in the long run to foster a friendly spirit from the buyer towards the seller—nor, indeed, *vice versa*. The returns of the quantities shipped, though they may seem highly satisfactory, constitute no proper criterion wherewith to gauge the real value of the market.

The German Emperor is said occasionally to use the phrase "My friend the Sultan." The remark expresses a sentiment which is gladly accepted by the Germans, because it represents a valuable item in the international commercial competition in Asia Minor. The German press prominently records the constant exchange of courtesies which takes place between Berlin and Constantinople. If it proudly lingers over the German diplomatic successes there (*e.g.*, the removal of Fehmi Pasha) it becomes all the more remarkable that the Bagdad Railway scheme is never referred to—partly, no doubt, because it is not officially intended that any foreign interest in the scheme should be unduly roused, but partly also because to the commercial world it has always seemed to harbour possibilities of international entanglements, and it thus

would introduce an item of uncertainty into a market which, with its long credits, requires more than all others a peaceful development.

The scheme itself has, so far, only interested the "haute finance," because until its various stages are completed it is of no practical value to the commercial community at large. If money were needed for the furtherance of the scheme, I think that "industry" would prove most unwilling to subscribe, more especially as the recent good years have tightened the money market all round, and "industry" has already raised all available money to sink it in the enlargement of its concerns at home.

Probably your Excellency is aware that the constructive work of the Bagdad Railway is being carried out by a Frankfort firm (Philipp Holzmann and Co.), so that it is natural that a certain interest in the scheme has been kept alive by the "haute finance" in Frankfort, which is also financially interested in Philipp Holzmann and Co., officially styled "Internationale Baugesellschaft, Frankfurt-a.-M.," and the shares of which are held in a few hands. The interest in the scheme, however, centres in Berlin, as the Deutsche Bank is exclusively intrusted by a Turkish Irade with the financial part of the enterprise (payment of interest and amortization). The Director of the Deutsche Bank, who is the moving spirit in the matter, is Herr Gwinner; he is also a Director of the "Internationale Baugesellschaft" above mentioned.

From inquiries which I caused to be made in different local quarters, it would, however, appear that even the local "haute finance" is none too well informed upon the subject. Prospectuses dated Constantinople, 4th (17th) February, 1919 (1904), are in its possession, but beyond its contents little seems known. If inquiries are met with great reticence, I am led to believe that want of any definite information is its cause. French and British participation in the scheme are spoken of without any definite indication; the Deutsche Bank, backed in this respect probably by the Government, is apparently keeping its information to itself.

One of my personal friends who is in touch with very vast American concerns confidentially approached a leading Frankfort financier, asking whether there was any opening for investing American money to a considerable extent in the Bagdad Railway scheme, on the condition, of course, that the American interests would then be represented on the Board. The suggestion was (so to say) laughed out of court; it was explained that if Americans wished to subscribe on the condition of obtaining a voice in the management (though it was not admitted that American money, even in considerable sums, was welcome) this could only be done in the following way:—

If it were decided to accept the American offer, a reliable bank in the States (reliable in its loyalty to German interests) would be carefully selected, and would then be instructed to receive subscriptions in the States, after it had been previously arranged that a particular Director of the American concern would be appointed to represent, outwardly at least, the American interests on the Managing Board of the Bagdad Railway scheme. Thus the man representing the American interests would of course be nothing but a tool in German hands. Presumably a similar course would be followed in England if there were any intention of inviting general subscriptions there.

I have it on absolutely trustworthy authority that the Bagdad Railway scheme to-day stands as follows:—

The French and the German financial groups have come to an agreement concerning the continuation of the railway, according to which the Germans construct the Taurus line from Eregli to Adana (220 kilom.); the French construct the next portion, to Haleb (Aleppo) (200–300 kilom.); this would give the French at Aleppo a junction for their railway lines in Syria, which, until now, have proved profitless investments. It is generally believed that Great Britain is endeavouring to prevent the construction of the Taurus line. As there is no inclination under these circumstances to give Great Britain any chance of influence, British capital for the Taurus line is not wanted—for which, moreover, the capital is secured. If former negotiations with Great Britain have been discontinued for about a year, there is at present, from the German point of view, no reason for reopening them. As far as can be foreseen, there is, however, no reason why negotiations should not be resumed after the Taurus lines have been completed. In fact, there seems to-day on the part of Germany a prospective desire that the negotiations should then be resumed, but not until then.

I have, &c.
(Signed) FRANCIS OPPENHEIMER.

[12812]

No. 25.

Sir N. O'Connor to Sir Edward Grey.—(Received April 22.)

(No. 228. Confidential)

Sir,

Constantinople, April 17, 1907.

I HAVE the honour to transmit herewith copy of an interesting letter which I have received from Mr. Percy Loraine, from Aleppo, reporting conversations which he had with the Valis of Beyrout and Aleppo, mainly regarding the Bagdad Railway.

I have, &c.
(Signed) N. R. O'CONOR.

Inclosure in No. 25.

Mr. P. Loraine to Sir N. O'Connor.

Sir,

Aleppo, March 25, 1907.

IT may perhaps be of interest to report that on my arrival at Beyrout on the 20th instant, Sir R. Drummond-Hay took me to call on the Vali, that on my arriving here Mr. Longworth presented me yesterday to the Vali of Aleppo, and that their Excellencies Halil Pasha and Nazim Pasha respectively touched on the question of the Bagdad Railway in the course of conversation, though no reference whatever had previously been made to that subject.

Halil Pasha asked me whether it was known at Constantinople how soon the Germans intended to continue the construction of the line to Adana. I replied that no announcement had yet been made on the subject, and that, as far as I knew, everyone there was in the dark about it. His Excellency went on to say what a great expense the railway, with its large kilometric guarantees, was to the Ottoman Government; in his belief, the Germans would continue the construction as far as Adana, but they would not get any further without the co-operation of England, France, and Russia.

Why, he said, does not England offer to build a railway to Bagdad without a kilometric guarantee? The country it would traverse is rich, and the development it would undergo when opened up by the railway would render a guarantee unnecessary. I asked his Excellency how this could be, as the Concession for the construction of a railway to Bagdad had already been granted by the Sultan. He replied that was a question that depended on what interpretation was placed on the wording of the Concession. A Concession, it was true, had been given, but according to its terms the railway was to pass through certain places; if an alternative *tracée* which did not clash with the letter of the German Concession were proposed by a party willing to construct without guarantees, it would be possible to accept it, and thus to allow the remainder of the German Concession to fall through.

Nazim Pasha, the Vali of Aleppo, approached the subject in precisely the same way as Halil Pasha had done, and I answered in the same sense as previously. After remarking on the large sums the Bagdad Railway was costing the Ottoman Government, his Excellency went on to point out the superiority, in point of view both of cheapness and distance, of a line from Alexandretta to Meskené through Aleppo, connected with Bagdad, Bussorah, and the Persian Gulf by a steamer service on the Euphrates; if an English Company would come forward and propose to construct such a line without a kilometric guarantee, he felt sure it would succeed.

I had the opportunity of again speaking with his Excellency this evening, and in the meantime had remembered having heard of a British Company which had proposed about fifteen years ago to construct such a railway and to make the Euphrates navigable for steamers, and, further, that at about that date the monopoly of navigation on the Tigris and Euphrates had been granted to the Civil List. I asked Nazim Pasha if this were the case, and he replied in the affirmative, adding that the fact that a steamer had plied up to Meskené in the time of Midhat Pasha proved that steamer navigation on the Euphrates was possible. He admitted that the navigation was difficult owing to the habit which the river possessed of changing its bed from time to time, but estimated the cost of putting the river into a navigable condition at 50,000*l.* I suggested to his Excellency that any new proposal to establish a steamer service on the Euphrates would be impossible of acceptance owing to the monopoly

held by the Civil List, and he replied that that was not the case, as the Concession as regards the Euphrates had lapsed, the Civil List having done nothing as yet in that respect, and stated that it would accordingly be possible to accept such proposal coupled with the construction of an Alexandretta-Aleppo-Meskené Railway without guarantees. This railway, he went on to say, would present no difficulties whatever; there was not a single bridge to build, and use could be made of the new road from Alexandretta to Aleppo, while the country between Aleppo and Meskené was perfectly flat; further, that the line would have its *débouché* at the only good natural port on the coast, and would constitute, together with the steamer service on the Euphrates, the natural overland route to India. He finally referred to the new line from Hama to Aleppo, ridiculing the strategical importance which is supposed to attach to it, entirely deprecating its commercial value—an opinion which I believe Mr. Longworth endorses—and condemning it as unnatural in contradistinction to the Alexandretta-Meskené line.

The foregoing I think fairly represents the substance of the remarks made to me by their Excellencies.

I have, &c.
(Signed) PERCY L. LORAIN E

[13827]

No. 26.

Sir Edward Grey to Sir F. Bertie.

(No. 256.)

Sir,

Foreign Office, April 25, 1907.

I TOLD M. Cambon to-day that the most essential condition for us of co-operation in the Bagdad Railway was that we should have the construction and working of the southern or Bagdad end to the Gulf.

If this could be satisfactorily arranged, we should be willing to participate.

I am, &c.
(Signed) E. GREY.

[14259]

No. 27.

Sir F. Bertie to Sir Edward Grey.—(Received May 3.)

(No. 231. Confidential.)

Sir,

Paris, May 2, 1907.

BARON DE NEUFLIZE, a Regent of the Bank of France and one of the Directors of the Ottoman Bank, told me to-day that the Paris branch of the latter bank, having been informed by the London branch that His Majesty's Government would be prepared to negotiate on the subject of the Bagdad Railway on the basis of the 200 kilom. section ending at the Persian Gulf being constructed and managed by England, M. Auboyneau had at once communicated the information to M. Zander, adding that if Germany "*désire causer*" the opportunity had come.

I have, &c.
(Signed) FRANCIS BERTIE.

[14325]

No. 28.

Sir Edward Grey to Sir N. O'Connor.

(No. 159.)

Sir,

Foreign Office, May 4, 1907.

I HAVE to inform your Excellency that Mr. Barry, of the Imperial Ottoman Bank, called at the Foreign Office on the 29th ultimo, and stated that a sum of 250,000*l.* had just been lent by that institution to the Turkish Government on the security of the surplus revenues, which will consequently not be available for the hypothecation of any further kilometric guarantees for railways before the year 1910.

I am, &c.
(Signed) E. GREY.

[14633]

No. 29.

Sir N. O'Connor to Sir Edward Grey.—(Received May 6.)

(No. 260.)

Sir,

Constantinople, May 1, 1907.

I HEAR on private but reliable authority that the Engineer who surveyed the Konia Adana section of the proposed Bagdad Railway, M. Nicholas Mavrogordato, was ordered to return from German East Africa, where he was employed by the German Government, so as to be in Constantinople by March last, but that, on his arrival in Berlin, he was told he need not proceed to Constantinople, as there was no chance of any work on the Bagdad Railway for a year, and was ordered back to East Africa.

As a further indication that the prosecution of the railway is postponed for the moment, I may mention that Count Vitalis, the well-known French financier, who came to Constantinople some months ago with the object, it is understood, of taking a hand in the construction of the railway, in which he is interested, quite apart from any direct profits he might secure, because of its projected connection with the French Aleppo-Damascus line, is no longer occupying himself with the matter, having turned his attention to enterprises of less importance.

I have, &c.

(Signed) N. R. O'CONOR.

[15506]

No. 30.

Sir F. Lascelles to Sir Edward Grey.—(Received May 13.)

(No. 204.)

Sir,

Berlin, May 10, 1907.

THE "Frankfurter Zeitung," which is usually well informed as regards commercial and financial questions, has recently published a statement to the effect that the "Porte, which is in negotiation with the Ottoman Bank for a loan based on the receipts of the lighthouses, has concluded an arrangement with the bank for the advance of 200,000*l.*, at 7 per cent. interest, and has assigned as security the surplus of the *revenus concédés*. This operation concluded with the consent of the Sultan cannot fail to excite much attention, any assignment of the surplus of the *revenus concédés* having been considered as out of the question, as Turkey was reserving them for the continuation of the Bagdad Railway. It is impossible to disguise the fact that the further progress of that enterprise is postponed *ad calendas Græcas*."

An article in a subsequent number of this paper, entitled "Manœuvres against the continuation of the Bagdad Railway," repeats the same statements, adding that this operation may be looked on as the preliminary attack of the enemies of the railway in order to hinder its progress, and that probably the Franco-English forces which inspired it are trying to get control of the surplus of the *revenus concédés* with a view to extorting better terms for their participation in the scheme.

No notice of the foregoing is taken by the "Kölnische Zeitung," which announces that Baron von Marschall, before quitting Constantinople on leave, received the most satisfactory, though verbal, assurances as to the employment of this surplus for kilometric guarantees.

An inquiry was recently undertaken by the "Gaulois" as to the opinion of prominent business men in Germany with regard to closer financial and commercial relations with France. In the course of the interview with the correspondent of that paper, Herr Gwinner, the Director of the Deutsche Bank, said:—

"Have we not for example equal interests in the Bagdad Railway Company respecting which so many gross inaccuracies have been circulated? I can speak with authority on the subject, as I am the President of this Company which some persist in calling German, but which is essentially international."

There may be some doubt as to whether Herr Gwinner's statement was made with the object of obtaining more French capital without French control or whether, if he has recently met with a check, he wished to put out a feeler with a view to paving the way to an international understanding.

I have, &c.

(Signed) FRANK C. LASCELLES.

[16328]

No. 31.

Sir F. Lascelles to Sir Edward Grey.—(Received May 21.)

(No. 214.)

Sir,

Berlin, May 15, 1907.

WITH reference to my despatch No. 204 of the 10th instant, I have the honour to transmit herewith a précis of an article published in the "Berliner Neueste Nachrichten" of the 14th instant, under the heading, "Der Streich gegen die Bagdadbahn," in which England and France are accused of having worked on the Porte so as to prevent the construction of a further stretch of the Bagdad Railway, and Germany's interests are described as having been thus betrayed. The writer, however, is convinced that the line will, nevertheless, be completed as far as the Persian Gulf, and by the energy and support of Germany alone.

I have, &c.

(Signed) FRANK C. LASCELLES.

Inclosure in No. 31.

Précis of Article in the "Berliner Neueste Nachrichten" of May 14, 1907.

NOW that the Grand Vizier Ferid Pasha has entered into negotiations with the Ottoman Bank in order to prevent the construction of the Bagdad Railway by Germany, the question of the decrease of German influence with the Porte has become part of that disagreeable diplomatic question, "the isolation of Germany." When such a friendship as that between Germany and Turkey suddenly begins to appear questionable, it is time to look into the matter.

It is undeniable that the reform work in Macedonia is not yet assured, in spite of the fact that the Protocol for the 3 per cent. increase in duties was signed on the 25th of last month. England and America, as well as other small Powers, are procrastinating, and even seem inclined to withdraw their consent. If this attempt at reform fails, as is to be feared, its moral effect on German influence in the Orient will be considerable, and it is small consolation to think that Austria-Hungary and Russia will share the misfortune.

Even if these reforms are successful, the reward for Germany's years of work will be a direct jeopardizing of German undertakings in Turkey. The costs of the Macedonian reform will be paid indirectly by Germany, as a result of the loan of 200,000*l.* from the Ottoman Bank. Germany might justly expect that a portion of the receipts from the rise in customs should be used for the increase of the guarantee of interest for the construction of the Bagdad Railway. Suddenly the Porte needs money "urgently," not only to pay overdue wages, but to carry on war in Jemen, and to provide for the dowry of the Sultan's daughter, which seem very inadequate causes for the loan.

There is no doubt that England and France have led the Porte to a breach of faith with Germany. The Grand Vizier himself has tried to reimburse German capital by giving the German Bank the concessions for irrigating the extremely fertile plain of Konia, and draining the equally advantageous marsh land at Eski-Shehr. Such compensation cannot make amends for the commercial and political damage arising from a delay or hindrance in the completion of the railway to the Persian Gulf. Even if Ferid Pasha gave over all the marshes of Turkey to German Companies, that fathomless morass, the greed of certain officials, would tax the strength of a Hercules. As long as there are Powers that from time to time satisfy this *auri sacra fames*, the influence of these Powers will continually change in Turkey.

German political influence in Turkey consists in the personal confidence which the Sultan reposes in the Kaiser, and also in the respect for Germany's military power. German influence would begin to decrease if the German officers, who form the majority of the foreign officers in the Turkish army, were replaced by non-German Franks, but this is not the case.

The *entente* Powers are attempting to convince the Sultan that we are no longer feared in the Occident, and their machinations against the Bagdad Railway seem to have been only too successful. On the 1st May, just before the German Ambassador's departure, the blow came. Herr von Marschall was obliged to protest to the Sultan against such a breach of faith, and his protest must have been very

[1715]

P

effective. It is to be hoped that a certain transitory disagreement between Germany and the Porte will be the last evil experience with the *entente* on the Bosphorus.

This will not hinder the completion of the Bagdad Railway. Turkey needs the railway, and as Germany alone has the concession for its construction not only to Bagdad but further, and has thus secured a special influence, Turkey would some day be obliged to ask Germany to complete it. This is on the assumption that Germany asserts her position to the enemies round her. No one knows what political events may happen before the proposed opening of the great railway, or how they may drag the near Orient into their circle. Constantinople has ever been important as the commercial and political key of the East. But at present its rôle as political observatory is more important for us Germans; in the Sublime Porte at Stamboul is the nearest touchstone of Germany's reputation and power in the Occident.

[18914]

No. 32.

Sir A. Nicolson to Sir Edward Grey.—(Received June 10.)

(No. 295.)

Sir,

St. Petersburg, June 2, 1907.

I MENTIONED to M. Isvolsky to-day that a telegram from Berlin had been published in the "Standard" of the 21st ultimo to the effect that a German bank was to be established at Bagdad, and that it was considered probable that among the projects which this bank would favour was the construction of a railway from Tehran to Bagdad, and thence to Kerbela and Hillah. I asked his Excellency whether he had received any information on the subject. M. Isvolsky replied that he had heard absolutely nothing of any such project, and he did not appear to attach much credence to the report as to the construction of a railway such as I had described.

I have, &c.

(Signed) A. NICOLSON.

[19827]

No. 33.

Sir F. Lascelles to Sir Edward Grey.—(Received June 17.)

(No. 266. Secret.)

Sir,

Berlin, June 10, 1907.

I HAVE the honour to transmit to you herewith, with reference to your despatch No. 150 of the 29th ultimo, a Memorandum of a conversation which has been held between Lord Cranley, Third Secretary of His Majesty's Embassy, and Dr. von Schwabach and Herr Testa relative to the Bagdad Railway.

I have, &c.

(Signed) FRANK C. LASCELLES.

Inclosure in No. 33.

Memorandum by Lord Cranley.

(Secret.)

I HAD some conversation yesterday with Dr. von Schwabach on the subject of the Bagdad Railway, and more especially in regard to the rumour published in the "Standard" that a concession had been received by the Germans to construct a railway from Bagdad to Tehran, with extensions to Hillah and Kerbela. Dr. von Schwabach, who is a Director of the railway, assured me that there was no truth in the rumour, for the following reasons:—

1. If the Deutsche Bank had received such a concession, negotiations on the subject must have taken place both at Tehran and Constantinople, and it was inconceivable that a hint of these negotiations should not have reached Sir N. O'Connor or Sir C. Spring-Rice.

2. The Deutsche Bank were at present very busy with the scheme of constructing the railway beyond Eregli, and he doubted if they were able to conduct the two schemes at the same time.

It was, of course, possible that the German group had obtained a blocking concession of the railway from Bagdad to Tehran, with no obligation to commence construction themselves; but he was inclined to believe there was no truth in the rumour. He then introduced me to Herr Testa, formerly German Dragoman at the Embassy in Constantinople, and now Representative of the German bondholders on the Ottoman Debt. Herr Testa was very positive that there was no truth in the story. He declared several times that he had heard no word of it at Constantinople, and he repeated Dr. von Schwabach's argument that, had any negotiations of the kind taken place, His Majesty's Legation at Tehran could not have failed to hear of them. I asked him what would, in his opinion, be the basis of the rumour, and he replied that he thought that it owed its origin to the concession granted in the Convention of March 1903 to construct a railway from Sadijé to Khanikin, and he also said that the Persian Ambassador at the time the Convention was concluded was a gentleman who possessed large estates on the Turco-Persian frontier. His Excellency, who hoped to profit considerably by the line were it constructed, had been very anxious to procure its construction.

C.

Berlin, June 10, 1907.

[20726]

No. 34.

Sir A. Nicolson to Sir Edward Grey.—(Received June 24.)

(No. 329.)

Sir,

St. Petersburg, June 18, 1907.

M. ISVOLSKY mentioned to me yesterday that he had received from Count Benckendorff a copy of a Memorandum setting forth the views of His Majesty's Government in respect to the Bagdad Railway. He intended to study the document carefully, and might offer some observations later through the Russian Ambassador in London. He remarked that he doubted if the Memorandum would be pleasing to Berlin, and it seemed to him at first sight that Great Britain had taken up an attitude somewhat in advance of that which she had hitherto assumed.

I said that I did not gather that there was any intention of communicating the Memorandum to the German Government, for the present at any rate, and that my Government had merely communicated their views to the French and Russian Governments for their confidential information. I was speaking without any instructions, as I had simply received a copy of the Memorandum without any accompanying observations.

M. Isvolsky said that he understood that His Majesty's Government did not intend to address themselves to the German Government until the latter made the first overtures, and he then dropped the subject.

I have, &c.

(Signed) A. NICOLSON.

[21517]

No. 35.

Sir N. O'Connor to Sir Edward Grey.—(Received July 1.)

(No. 381. Confidential.)

Sir,

Therapia, June 24, 1907.

IN the course of conversation with my Russian colleague a few weeks ago his Excellency told me that he believed the German Minister, M. de Kiderlen, was doing all he could to persuade the Sultan to give a formal guarantee of certain revenues for the issue of State bonds for the next two or three sections of the Bagdad Railway, or at any rate for the Taurus section. The estimated cost of this section is about 120,000,000 fr., of which 54,000,000 fr. would be represented by the new issue, and the balance provided by the surplus of the Eregli section and by loans from the issue of new shares of the Anatolian Railway Company, and the appropriation of that Company's reserve funds.

A Greek banker, who is a member of the Anatolian Railway Board, much interested also in the Bagdad Railway, called upon me to-day and gave me confidentially the following information:—

He said that he had written a short time ago to M. Gwinner pointing out that, even if the Porte were inclined to hypothecate certain revenues for the Bagdad Railway, it was almost certain that the British and French Delegates on the Debt would be instructed to refuse to collect those revenues, and that in this case they would really be of little value as neither the Imperial Government nor the Bagdad Railway Company were in a position to effect the collection. For this and other reasons my informant advised that the further construction of the line should be suspended for the present to allow time for further negotiations with the British and French Governments. It was not, he said, desirable that the financiers who were interested in the Bagdad Railway and sympathized with the enterprise should be loaded up with unmarketable stock.

M. Gwinner had thanked him for his letter, and replied that what he said would receive most careful consideration.

My informant went on to say that he believed this view was shared by a good number of the Board, but that it was opposed by M. Testa, German member of the Ottoman Debt Council, and the confidential adviser of Baron von Marschall, and that, while talking on the subject a short time ago to the German Ambassador in Paris, his Excellency told him that his lips were closed as regards the Bagdad Railway, but that he confessed he did not understand the attitude of M. Testa and those who wished to rush the question before it was seen whether any arrangement with England and France were practicable.

My informant's own opinion was that the Germans would shortly be obliged to approach the British and French Governments again.

I have, &c.
(Signed) N. R. O'CONOR.

[23339]

No. 36.

Count de Salis to Sir Edward Grey.—(Received July 15.)

(No. 320. Confidential.)

Sir,

Berlin, July 12, 1907.

I HAVE the honour to transmit to you herewith a copy of the Annual Report of the Anatolian Railway for the year 1906.* A short précis of the contents has been made.

The result hardly seems to be very satisfactory as compared with the preceding year. There appears to have been a general shrinkage in receipts as against a slight increase in working expenses and, of course, an increase in the amount due by the Turkish Government for kilometric guarantees. Thanks to the latter, a dividend at 6 per cent.—the same rate which was paid last year—has been declared.

In p. 8 (first paragraph) of the Report made to you by the Bagdad Railway Committee on the 26th March last, figures were given as to the gross receipts per mile of the Eski-Chéhir-Konieh section, and the working expenses per mile of the whole line from Haidar Pasha to Konieh for the year 1905. These figures were quoted as an indication of the probable position of the Konieh-Eregli section of the Bagdad Railway. I beg to inclose a note comparing these figures with those of 1906.

I also beg to inclose the Report of the Company for the port of Haidar Pasha,* which is practically in the same hands as the Anatolian Railway. This Report is given in both French and German. The figures show a falling off in the amount of business done.

I have, &c.
(Signed) J. DE SALIS

* Not printed.

Inclosure in No. 36.

Memorandum on the 18th Annual Report of the Directors of the Anatolian Railway Company for the year 1906. (Dated at Constantinople and Berlin, May 1906.)

Line open to Traffic.—The amount of line open to traffic remains the same as in 1905.

Gross Receipts.—1. Main line. Haidar Pasha-Angora (about 359 miles).

The gross receipts amounted to 280,677*l.* (285,848*l.* in 1905); a decrease of 5,171*l.*, or about 1·81 per cent. The receipts per mile amount to 781*l.* against 796*l.* in 1905.

2. Eski-Chéhir-Konieh extension (276 miles).

The gross receipts amounted to 109,579*l.* (141,824*l.* in 1905); a decrease of 32,245*l.*, or 22·74 per cent. The receipts per mile amount to 396*l.* against 513*l.* in 1905.

3. The Hamidié-Ada Bazar branch line (less than six miles).

The gross receipts amount to 5,138*l.* against 4,307*l.* in 1905. Thus this is the only part of the line which shows an increase in receipts. The increase amounts to 831*l.*, or 19·29 per cent. The receipts per mile amount to 856*l.* against 770*l.* in 1905.

The gross receipts for the whole system amounted to 395,393*l.* (against 431,979*l.* in 1905); a decrease of 36,586*l.*, or 8·47 per cent. The losses are chiefly due to the falling off in passenger and goods traffic on the main line and Eski-Chéhir-Konieh extension, and is explained by the fact that there were less military and naval officers and men carried over the lines than in 1905. It is, however, shown that the ordinary passenger traffic has increased.

Working Expenses.—

	1906.	Per cent.	1905.	Per cent.
	£		£	
General expenses	40,504	22·74	37,414	21·73
Traffic expenses	34,502	19·34	32,224	18·71
Material and traction ..	70,801	39·52	70,432	40·91
Permanent way	32,776	18·40	32,113	18·65
Total	178,144	100	172,183	100

Results per mile:—

	1906.	1905.
	£	£
Receipts	616	674
Expenses	277	269
Net receipts per mile ..	339	405

The working expenses amounted to 45 per cent. of the receipts as against 40 per cent. in 1905.

Kilometric Guarantee.—The kilometric guarantee paid by the Imperial Ottoman Government amounted to:—

	1906.	1905.
	£	£
Main line	46,618	41,564
Konieh extension.. ..	118,981	101,641
	165,599	143,205
	143,205	
	22,394 net increase in kilometric guarantee.	

[1715]

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Rolling Stocks.—Three tender engines and one engine with a separate tender have been added to the rolling stock.

Train Service.—The mileage totalled by the trains on the system is slightly less than last year. The decrease has been on the main line and the Konieh extension, and there has been a slight increase on the Hamidié branch.

Finance.—(a.) The redemption of debentures has proceeded regularly according to the programme of amortization.

(b.) In accordance with the Resolution of the General Meeting held on the 29th June, 1906, and with Article 37 of the Articles of Association, seven fully paid-up shares, and 102 shares on which 60 per cent. had been paid, were reduced by lot at a net cost of 1,364*l.*, and "bons de jouissance" issued in their place. The total number of redeemed shares on the 31st December, 1906, was 1,003 of a nominal value of 20,060*l.*

(c.) The Anatolian Railway Company has acquired the major part of the shares in the Messina Tarsus Adana Railway, and has taken over the management of the line.

(d.) The redemption of the advance made by the Ministry of Marine is being proceeded with regularly.

Dividend and Division of Profits.—The dividend paid was 6 per cent., and the available surplus from profit and loss account (including balance from 1904), amounted to 122,066*l.* It was proposed to divide this sum as follows:—

	£
Regular reserve fund	5,188
5 per cent. interest on paid-up share capital	84,376
Redemption of shares	1,664
Directors' percentage ("Tantième")	626
1 per cent. super-dividend on 133,997 shares and 1,003 "bons de jouissance"	17,000
Balance to next account	11,012
Total	122,066

Board of Directors.—Herr Lindau resigned his post in May 1906, and was succeeded by Dr. Helferrich. The latter was formerly in the Colonial Department of the Foreign Office. He is a Professor of Bonn University, a writer on economic subjects, a currency authority and an advocate of the gold standard. It is said that he forms the connecting link between the Government and the Board of Directors. He is one of the Delegates of the Board at Constantinople.

Berlin, July 9, 1907.

Gross receipts, Eski-Chéhir-Konieh section (276 miles):—

1906.	1905.	+ or —.	Per cent.
£ 396	£ 513	£ — 117	— 22·74

Working expenses, Haidar Pasha to Konieh:—

1906.	1905.	+ or —.	Per cent.
£ 277	£ 269	£ + 8	+ 2·9

[21517]

No. 37.

Sir Edward Grey to Sir N. O'Connor.

(No. 277. Confidential.)

Sir,

Foreign Office, July 16, 1907.

I HAVE read with much interest your Excellency's despatch No. 381 of the 24th ultimo on the financial prospects of the Bagdad Railway Company.

I should be glad if your Excellency would take an early opportunity of consulting Sir A. Block as to whether it would be practicable for him and his French colleague to

oppose, as suggested by the Greek banker referred to in your despatch, the collection of further revenue by the Council of the Ottoman Debt on behalf of the Bagdad Railway Company, if such action were deemed expedient on political grounds.

I am aware that Sir A. Block has on various occasions deprecated the hypothecation of additional revenues for the purpose of kilometric guarantees, for the reason that the Ottoman Government does not secure an adequate return for the sacrifices made, and that such hypothecation must therefore result in the accumulation of external and unproductive debt, but the fact that the Council of the Debt has already consented to levy revenues allocated to the Koniah-Eregli section of the Bagdad Railway would not improbably be used as an argument for not withholding its services in the collection of revenues allocated to other sections of the railway.

I am, &c.
(Signed) E. GREY.

[24186]

No. 38.

Count de Salis to Sir Edward Grey.—(Received July 22.)

(No. 325.)

Sir,

Berlin, July 16, 1907.

I HAVE the honour to transmit to you herewith the Annual Report of the Bagdad Railway Company for the year 1906.* I also inclose a brief summary of the figures compared with those of last year, from which it appears that there has been a falling off in the receipts and consequent increase in the kilometric guarantee payable by the Turkish Government.

I have, &c.
(Signed) J. DE SALIS.

Inclosure in No. 38.

Memorandum on the 4th Report of the Board of the Bagdad Railway 1906.

1. *Line Open to Traffic.*—125 miles, the same as during last year.
2. *Gross Receipts.*—These have diminished since last year in the following manner:—

1905.	1906.	Difference.
£ 12,934	£ 10,911	£ — 2,023

The receipts per mile have decreased, therefore, in the following manner:—

1905.	1906.	Difference.
£ 103	£ 87	£ — 16

3. *Traffic.*—The receipts from passengers travelling over the line have increased by 252*l.* during the past year but, on the other hand, the receipts from transport of freight have decreased by 2,209*l.* The reason given for this decrease is the badness of the harvest, which caused a reduction in the transport of cereals on the line.

An increased train mileage of 8,490 miles is reported.

* Not printed.

4. *Kilometric Guarantee*.—This has increased owing to the falling off in the gross receipts. The difference is as under:—

1905.	1906.	Difference.
£ 24,961	£ 22,969	£ — 1,992

5. *Rolling Stock*.—This remains the same as in 1905.

6. *Changes in the Directorate*.—M. Steinthal has resigned his position as a director, and has been succeeded by Dr. K. Helfferich. Dr. Helfferich has also become a member of the Board of the Anatolian Railway by the resignation of Herr Lindau. Bedros Effendi Agarian died on the 3rd September, 1906, and his place has been taken by his brother, Joseph Agarian. The net available surplus from profit and loss account amounted to 25,804*l.* against 45,523*l.* last year. It is proposed to employ the sum in the following manner:—

	1905.	1906.
	£	£
"Fonds de Prévoyance"	20,000	4,000
Statutory reserve fund	2,172	1,691
5 per cent. on capital shares	15,000	15,000
Directors' percentage ("Tantième") ..	458	..
Supplementary dividend of 1 per cent. on capital shares	3,000	..
Balance	4,893	5,113
Total	45,523	25,804

25112]

No. 39.

Sir N. O'Connor to Sir Edward Grey.—(Received July 29.)

(No. 441.)
Sir,

Therapia, July 23, 1907.

IN my despatch No. 381 of the 24th ultimo I mentioned the suggestion of a Greek banker that the collection of further revenue by the Council of the Ottoman Debt on behalf of the Bagdad Railway might be opposed by the British and French Delegates on the Council, and in your despatch No. 277, Confidential, of the 16th instant you desired me to consult with Sir Adam Block as to whether the adoption of such a course would be practicable if deemed expedient on political grounds.

I have more than once discussed this point with Sir Adam Block, and have found him quite ready, should the occasion arise, to show his reluctance to extend the operations of the Council to the collection of additional revenues for enterprises only indirectly connected with the Public Debt.

At the same time the question of such an extension of the Debt's operations is not on the tapis for the moment. The surplus of those revenues, the collection of which is already in their hands, would, if cleared of the temporary charges, suffice for the kilometric guarantees of several sections of the Bagdad Railway, but this surplus is the only important security now left for a loan which may be necessary for the pressing and immediate needs of the Government.

I have, &c.
(Signed) N. R. O'CONOR.

[25856]

No. 40.

Sir Edward Grey to Sir F. Bertie.

(No. 432.)
Sir,

Foreign Office, July 31, 1907.

I TOLD M. Cambon to-day that I heard there were difficulties both at St. Petersburg and at Paris about our Bagdad Railway proposal.

I had put it forward as the condition which would be satisfactory to us, in order to prove that we were not irreconcilable in our opposition to the railway. But if the French Government thought our proposal was impossible, we should be glad to know their objections and to discuss any other suggestion which they had to make. I should like it to be clearly understood that we were not pressing any thing at the moment, but that if the Bagdad Railway began to move again, the matter would be discussed with us.

M. Cambon said the objections to our proposal were three:—

1. The Sultan would never give such a concession for the Bagdad end.
2. Russia would never agree to the condition we had put forward.
3. It could not be reconciled with the internationalization of the line.

I said my idea had been that France, Germany, and ourselves should all construct and work different sections, but under an international Board; and Russia would make her own connection, and so come in under the same Board, on the same sort of terms.

M. Cambon said Russia did not wish the railway connection from the Caucasus to the Persian Gulf, because she thought the result would be to open the way for British and German trade, to her own disadvantage.

He understood that what I meant was that the proposal we had put forward was a desire, and not a condition, and he would so inform his Government.

I am, &c.
(Signed) E. GREY.

[26854]

No. 41.

Sir N. O'Connor to Sir Edward Grey.—(Received August 12.)

(No. 493.)
Sir,

Constantinople, August 6, 1907.

I HAVE the honour to forward herewith a despatch from His Majesty's Acting Consul at Aleppo, describing the proposed route of the Bagdad Railway.

I have, &c.
(Signed) N. R. O'CONOR.

Inclosure in No. 41.

Acting Consul Heathcote-Smith to Sir N. O'Connor.

(No. 25.)
Sir,

Aleppo, July 17, 1907.

I HAVE the honour to state that I arrived at Aleppo from Constantinople, having as far as possible followed the proposed route of the Bagdad Railway.

The nature of the first two days' travel, which bring one to Konia, is a matter of common knowledge. When the splendid station at Konia, with its adjoining first-class hotel erected by the Anatolian Railway Company, are left behind, the train continues its path over the endless and monotonous plateau which it had been traversing ever since leaving Eski-Shehr. The permanent-way on this last section has been constructed so as to allow trains to run at 100 kilom. (62½ miles) the hour, although up to Konia the line was built to allow of only 60 to 70 kilom. an hour.

The country here, as before, is only moderately fertile, and would require some big irrigation scheme to be carried out (it has been proposed to utilize Lake Bey-Shehr) to make it richly productive.

The treeless plain, dotted with but rare villages, and these always far distant from the stations, continues up to Eregli, a small, unprepossessing kaïmakamlik, that showed no visible signs of having benefited from the presence of the railway.

All along this section the stations are most excellent buildings, and everything has been done to give an impression of power and wealth. Although the higher officials are German, there has been no attempt to give too German a character to the line. Not a word of German is to be seen anywhere; all notices are in the two languages, Turkish and French, and, where necessary, Armenian and Greek also.

There is a certain amount of ineffectual opposition to the railway in this district, for the existence of the camels as a means of transport is being vitally menaced. The

[1715]

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houses of this region are miserable, being usually one-storied, and at that built with mud walls; the inhabitants, who are Turkish (Anadols), wear expressions of the most apathetic ignorance, and a long time would elapse before they would feel the need of wants which cannot be supplied locally; of course, the railway would still be useful in exporting their produce.

From Eregli, a town of some 300 dwellings, marked by a belt of trees, I passed on to the 8th kilom. beyond, where the railway, after passing a small station called Boulgourlou, some 3 miles from a village of the same name, suddenly ends abruptly in a field, without a stick or stone to show the direction of the proposed continuation.

Here begin the lower spurs of the Taurus Mountains, and after a gradual and easy ascent for some hours, during which the country becomes more and more stoney, and all signs of habitations are left behind, the line would enter the actual mountains, passing to the left of the Bulgar mine, a rich silver-lead deposit, now being imperfectly worked by the Sultan. At this point, near a place called Chiflé Han, a long and winding narrow defile would have to be negotiated, and the railway would finally find its way through the Cilician Gates, or there is an alternative route through the hills rather to the north. In any case, a great number of tunnels would be necessary, and the nature of the country be similar—massive rocky defiles; in all, some sixteen to twenty tunnels have been judged necessary.

From the centre of the pass onwards to Adana the slopes are well-wooded, with pines, firs, walnut and many smaller trees, and soon the hills open out, and would render the engineering much easier, although the descent into the Adana Plain is a sudden one. The Taurus Mountains turn their more fertile side to the Plain of Adana, but the sparseness of the inhabitants still continues. Once down in the plain the cultivation is comparatively intense, the chief product being cotton.

The three towns in the Plain of Adana—Mersina, Tarsus, and Adana—are all in a state of prosperity, and they are well built, owing to a fine white stone found in the neighbourhood. The existing French railway is in a most decayed condition; no fresh stock has been added for many years, and the stations compare most unfavourably with those of the Anatolian line. It is said that the capital has already been mostly transferred to German hands, and the new manager at Mersina, Mr. Bellart, has made several alterations by which the Company shall be run on lines more similar to those of the Anatolian Railway.

At Eregli there were no foreigners of any kind. In Adana itself there are some four Germans, who have tried to acquire land, but all kinds of difficulties have been put in their way, and requests for Concessions to build factories have been met with the same persistent opposition by the Turks. Adana is undoubtedly a growing town, but a railway from it towards Killis, and then on to Aleppo, provided a line was constructed at the same period to Alexandretta, would probably cause all the commerce to flow by way of Alexandretta rather than benefit Adana and Mersina, which lie on the other side of the Amanus (Giaour) Mountains.

Continuing the road through the cotton-fields to the east, the line was marked out by telegraph poles as far on as Missis at the time of the original construction of the Mersina-Adana Railway. At Missis some isolated hills begin, but the railway could circumvent these. The large and growing Kaza of Hamidié is soon reached from Missis. This township, which is bustling with life, was formerly called Yuzgat, but the Sultan had it peopled with Circassian immigrants and named it after himself. Counting the neighbouring villages, there are now some 12,000 inhabitants there.

The soil all round here is extremely fertile, and the line would run along in the plain as far as Osmanieh, a small and sleepy kaza of about 1,500 inhabitants lying at the entrance of a long valley leading due east into the Amanus Mountains. From this point onwards to Killis there are no sort of roads at present, and rough horse-tracks are the only ways leading across the mountains. Villages are rare, but not as infrequent as in the Taurus Mountains, while cultivation is carried on to a much greater extent, and the country from here to Bagtché can be described as being very moderately fertile.

Some two hours' ride from Osmanieh the railway would have a difficult hill to overcome, and then would enter the broad valley of the Kara Su up to Bagtché, a tiny kaza among the mountains. From here onwards to Kazan Ali the engineering would be of extreme difficulty, and several long tunnels would be necessary. When the stoney hills have been passed by the horse-track there is an almost sheer descent of many hundred feet into a plain (Arslan Plain) which runs due north and south. The railway would emerge on to the plain near Kazan Ali, a village which is just a collection of a few mud huts deserted in summer owing to the heat. The line would here run due south past the ruins of Shamal, where German excavations have been going on. The plain is fertile,

but again very sparsely populated. Islahié, a small kaza of barely 1,000 inhabitants, lies on the route, but otherwise, from Bagtché to Killis, nothing but villages are passed.

Beyond Islahié there is a large forest, and the country here is considered unsafe, but certainly not in a degree to affect the building of a railway. From here onwards the route would lie due southwards along the foot of the Kurd Mountains, and though a good deal of embanking, cutting, and bridging-over would have to be undertaken, no tunnels should be necessary. The line would pass some 8 miles south-east from Killis, following an easterly direction. The country all round here is of an extreme fertility, and villages very plentiful; the inhabitants even enjoy the rare reputation of being hard-working.

From here on to Aleppo the country is well known. The line lies over a rich, undulating plain, where the difficulties of construction would be few, and the financial advantages are apparent.

At Aleppo, again, one finds Germans pushing their interests to a certain extent, but on the whole certainly no schemes of colonization on these sections of the line can at present be attributed to them.

As to whether the country between Eregli and Killis is highly mineralized little is known definitely at present, but it seems certain that the Taurus Mountains hide a good deal of mineral riches.

Forests are at present fairly plentiful, but if the Railway Company may cut wood as it wishes, and no afforestation is taken in hand, the country would soon present a very naked aspect.

It is undoubted that there is room for a larger population in the Plains of Adana and around Eregli and even Killis, and were cultivation carried on by intelligent people, and with modern means, the prosperity of these regions would soon increase in a very marked degree. In the Plain of Adana quite a number of agricultural machines have been introduced, elsewhere they are scarcely known, while as for means of communication, even passable roads for wheel traffic lack between centres of importance.

I have, &c.

(Signed) C. E. HEATHCOTE-SMITH.

[28631]

No. 42.

Sir Edward Grey to Sir F. Bertie.

(No. 472. Confidential.)

Sir,

Foreign Office, August 22, 1907.

I TOLD M. Geoffray to-day that, though I had not yet seen Sir Charles Hardinge, he had sent me a written account of his interview with Prince Bülow.

It had been very favourable, and friendly in tone.

The only subjects which it had been arranged that Sir Charles Hardinge should initiate with Prince Bülow were the trouble caused by Morenga, who had made an incursion from British territory into German South-West Africa, and The Hague Conference, with regard to which it was to be pointed out that the German Government must now feel quite sure that whatever differences of opinion might have arisen, the whole conduct of the British delegation had no political motive.

Prince Bülow volunteered the statement that he was satisfied from M. Isvolsky that the interests of Germany would in no way be affected by the pending Anglo-Russian Agreement, and he had said that he would welcome the conclusion of such an Agreement, as likely to make for peace.

With regard to Morocco, Prince Bülow had said that he was most anxious for an improvement in the relations between France and Germany. He thought this could be effected by a display of tact on both sides, especially on the part of the local Representatives of the two Powers. He was convinced that France had no intention of attacking Germany. And he gave most formal assurances that Germany had no intention of attacking France, nor of creating difficulties for her in Morocco. He realized the difficulties which France already had in Morocco, and he did not desire to increase them. He had sent instructions that the Moorish authorities were to be made to understand that as long as France and Spain acted in conformity with, and within the limits of, the Algeciras Act, the Moorish authorities would have no support from the German Government or German Representatives in opposition to France and Spain. All Prince Bülow wanted was that German traders and merchants should not be unfairly treated by the French authorities, and should not be excluded from fair competition.

M. Geoffray said all that France desired was to act in conformity with the Algeiras Act. He further observed that during the last few weeks there had been a favourable change in the attitude of the German Legation in Morocco.

I said it was very likely that when Prince Bülow spoke of the need for tact on the part of local Representatives, he had Dr. Rosen in his mind.

It had been arranged that Sir Charles Hardinge was not to say anything about the Bagdad Railway unless the Germans mentioned it to him.

Prince Bülow had made no mention of it; but at Ischl, Baron d'Aerenthal had asked what our attitude towards the Bagdad Railway was. Sir Charles Hardinge had told him, and Baron d'Aerenthal said this seemed a very natural view for us to take.

I had, of course, no doubt that the Germans had instigated Baron d'Aerenthal's question. And I reminded M. Geoffray of what I had already said to M. Cambon about the railway: that the Memorandum we had put forward was not final, but intended to prepare the way for discussion, and that though we did not press for discussion we expected the subject would be discussed with us whenever it came up.

At Ischl, Sir Charles Hardinge had spoken to Baron d'Aerenthal of the urgent need for the Powers to do something to discourage and repress the action of the bands in Macedonia. Baron d'Aerenthal had received the idea favourably, and I understood was discussing it with Russia.

The reports from Macedonia about the Greek and Bulgarian bands were very bad, and it was more than ever necessary that the Powers should take this seriously into their consideration. I understood that the Austrian and Russian Ambassadors at Constantinople were communicating to their colleagues proposals about judicial reform.

I am, &c.
(Signed) E. GREY.

[31654]

No. 43.

Sir N. O'Connor to Sir Edward Grey.—(Received September 23.)

(No. 585.)

Sir,

Therapia, September 17, 1907.

I HAVE the honour to report that an Imperial Iradé has been issued granting to the Anatolian Railway Company the Concession for the irrigation of a large tract of country south of Konia for which the German Embassy has been pressing for the last two years. The district affected (130,000 acres) is between Konia and Karaman, the water being brought from the Bey Schehir Lake, and is traversed by the Konia-Eregli section of the Bagdad Railway, the receipts of which should be largely increased by the scheme. The work is to cost 20,000,000 fr., on which the Turkish Government guarantee 5 per cent. interest secured on the tithes of the reclaimed land.

It will be remembered (see my despatch No. 531 of the 28th ultimo) that when the Porte approached the German Government with a view to securing their support in opposing any proposals from the Powers for judicial reform in Macedonia, Germany's reply contained a reproach to the Porte for withholding the present Concession. It is doubtless in the hope of propitiating Germany and inducing her to adopt a more favourable attitude that the Concession has now been granted.

I have, &c.
(Signed) N. R. O'CONOR.

[32462]

No. 44.

Sir C. Spring-Rice to Sir Edward Grey.—(Received September 30.)

(No. 187.)

Sir,

Gulahek, August 28, 1907.

WITH reference to Sir F. Lascelles' despatch No. 266, Secret, of the 10th June, I have the honour to report that I have no reason to believe that the Germans have obtained a Concession to construct a railway from Bagdad to Tehran.

The Germans at one time possessed a Road Concession to Khanikin, but it lapsed, and has not, so far as I am aware, been renewed. The Russians have now constructed a road to Hamadan, and a German Railway Concession would interfere with this enterprise. No railway can be constructed in Persia till 1910 without the permission of Russia, and a Concession would not be easily obtained under present circumstances.

I have, &c.
(Signed) CECIL SPRING-RICE.

[39491]

No. 45.

Sir N. O'Connor to Sir Edward Grey.—(Received December 2.)

(No. 722.)

Sir,

Pera, November 27, 1907.

WITH reference to my despatch No. 585 of the 17th September, I have the honour to report that the contract between the Ottoman Government and the Anatolian Railway Company for the irrigation of the Plain of Konia has now been signed, the cost of the work being fixed at 19,500,000 fr., to be advanced by the Company and paid off by the Government in 35 years with 5 per cent. interest by yearly instalments.

Of these instalments £ T. 25,000 is to be paid in cash, guaranteed on the tithes of the reclaimed land, and the balance (£ T. 10,000) is to be represented by the freight of the produce of the district concerned, which is no longer to count as part of the revenue of the railway, and will be made good by the kilometric guarantee.

If these receipts do not suffice, the Ottoman Government will make up the deficit from some other source, and if they more than suffice the balance will go to them.

It is interesting and satisfactory to note that the arrangement which was originally to be made with the Civil List is now made with the Government and signed by the Ministers of Finance and Public Works. But the contract has not been signed, and the difficulties at the Palace overcome without, it is alleged, considerable "extraordinary" expense, and certainly straining even to an unusual degree the patience and temper both of the German Embassy and of the very able General Manager of the Anatolian Railway, M. Huguenin.

I have, &c.
(Signed) N. R. O'CONOR.